

# Challenge

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## letters TO THE EDITOR

Challenge invites your comments. Address letters to  
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### We goofed

•I find CHALLENGE to be especially good in most cases. However, I am surprised to find a glaring error in "Industry Trains Its Own" by Spencer Hayden [November 1957.]

I hope reference to International Telephone & Telegraph was a proofreader's error, as it is obviously American Telephone & Telegraph.

G. J. WINSTON

Dallas, Tex.

*Reader Winston is correct. We goofed! American Telephone & Telegraph is the firm which operates its own school for executives and supervisors at Asbury Park, N. J.—not International Telephone and Telegraph. We do not agree with Mr. Winston, however, that the error is either "glaring" or obvious as he writes, since there is an IT & T, as well as an AT & T.—Ed.*

### "Inalienable right"

•This business of "subliminal advertising" is a new low in huckstering techniques.

I, for one, am going to write my Congressman about it. I hope many others will do the same. Pressure must be brought to bear on the Federal Communications Commission and Congress to legislate such an invasion of the "inalienable right

of the viewer to turn it off" as it was so aptly put in CHALLENGE Notes. [November 1957].

A. J. BUCHANAN  
San Francisco, Calif.

### Political accidents?

•It is very interesting to sit back and watch the prognosticators pratfall on their prophecies. Since the war, the experts have been waiting for the big slump. In fact, one of the biggest of the war fears was that the economy would collapse miserably once war production stopped. Those fears have been saved up and have been poured out at every new occasion when the economy failed to match yesterday's advance.

I'm not saying that we can't slip back; I remember when the bulls were wrong and it was worse. But all these economic elements are dominated by political accidents. We are still navigating with the help of the magnetic compass and some dark stars. Let's just admit it and not sound too pontifical in the face of true prat and false landfalls.

BENNETT ALLINGHAM  
San Diego, Calif.

### Split-level living

•There is one point that the author of "Measuring Economic Welfare"

[November 1957] does not mention, the average life span. I think this certainly has a relation to economic welfare, and, anyway, people do like to live. The American average is around 68 years; I understand the average in India is about 30. We have, it seems, more time in which to be unhappy about split-level living.

HAAKON ARBORG

Duluth, Minn.

### Short and sweet

- This magazine is one of the best.

OLIVINE LAMBERT

Lebanon, N. H.

### Long and wordy?

- Your magazine makes excellent economics reading. Such articles as "Progress Without Risk," "Measures of Men" and "How Washington Makes Economic Policy" [October 1957] are timely and extremely constructive. The size of the magazine is excellent for carrying in your pocket for odd-minute reading.

I would like however, to see fewer long sentences and paragraphs—in the interest of being able to read so many fine articles in the limited time available.

H. M. KAISER

New York, N. Y.

### Czar of zeros

- It is good to see in one lump the various ways and instrumentalities of "How Washington Makes Economic Policy" [October 1957]. But I say it is lumpy. We claim to be a nation that is well aware of the importance of economics, and yet our statistics, as the author indicates, are badly handled. They don't cover all the key fields and they are too slow in appearing.

How can good decision-making take place if it lacks the necessary data? We need a cipher coordinator in Washington, a czar of zeros. The Statistical Abstract of the United States, which the Department of Commerce publishes, serves up too many 1950 figures in 1957. It certainly doesn't keep up with my field, the shipping business.

A. R. FITTS

Baltimore, Md.

### Death in the heart

- We seem to be doing everything about housing except the most important thing. When, oh when, shall we sweep away the slums? Is there a city of any size in the country that lacks this death in the heart?

JOSEPH E. DUNN

Chicago, Ill.

### Personality-of-the-Month

- Your new *Personality-of-the-Month* series is just great. The sketches are well-written and they get to the point—without a lot of excess verbiage. I especially enjoyed the piece on Prof. Sumner Slichter of Harvard [December 1957].

JOHN WICKERSHAM

Haverhill, Mass.

- Those new *Personality-of-the-Month* "thumbnail sketches" are a fine example of wholesome economics reading. Keep up the good work.

HENRY FAZIO

East St. Louis, Ill.

### The virtue of hindsight

- The '58 autos are here, loaded with the usual new conveniences—but still no defroster or fan device to clear up the rear window, as well as front windshield.

EDWARD SAMUELS

Elmont, N. Y.



## *a personal note*

*from the editor*

*the state of the Union  
as the new year begins*

AS WE ENTER the year 1958 there is more than one dark cloud hanging over the fortunes of this nation, and only the hardiest of knowing observers would cite that aphorism about the inevitable silver lining. The going will be rough during the next twelve months; the sooner we come to appreciate the enormity of the challenge we face, the better we shall be equipped to meet it.

The pity of it is that in spite of the speeches by responsible public figures, from the President on down, in spite of the discussion, analyses and debate on television, radio and in the newspapers, seven out of ten people in this country still do not know what all the shouting is about. To be sure, at least five of these seven will say something about "the dangers of communism" or cite "the threat of the *Sputniks*." But these are not exactly the kind of assessments that will keep America great and free.

These are only half-truths, half-explanations, and even rationalizations of our problems. The fact is, too few of us want to look at the whole truth, and of those who do, only a fraction want to talk about it. The truth is that we have become a nation of nervous, watchful waiters, not because that which threatens us is so overwhelmingly powerful, but because we have lost touch with the sources of our own strength. We are not in shape to run the kind of race into which we have been maneuvered. Maybe we can harden up a little this year.

The United States of America is no longer a young nation. In fact, it is among the oldest in the United Nations. As a result, we have had time to develop a thriving set of contradictions between the 18th-century ideals of our founding fathers and our 20th-century practices. Such contradictions confuse our friends, hearten our enemies and compound our difficulties in defining what "the American way of life" is supposed to stand for. We need revived ideals to live by to take the place of the slogans we have been mouthing. This is the essence of the hardening-up process referred to above.

It is a serious contradiction to ally ourselves with some of the most

blatant dictatorships in the world, while claiming to be "the arsenal of democracy." It is a serious contradiction to assume the mantle of freedom's paladin, while maintaining an embarrassed silence on colonial problems that are "not our business." This contradiction is all the more serious because we do not have sufficient self-confidence to attempt a constructive mediation between old friends we want to keep and awakened peoples whose respect we want to win.

It is a serious contradiction, turning to the domestic stage now, for businessmen to talk about the virtues of free enterprise, when so many of them are willing to profit from government interference. It is a serious contradiction to bemoan declining profits per sales dollar, when in essence total profits from increasing sales have risen. It is a serious contradiction for union leaders to claim that wage increases are not keeping pace with productivity gains, when in truth what they are demanding for labor is an impossible 100 per cent share of such gains. It is a serious contradiction to pledge allegiance to a free economy, while at the same time demanding more and more government regulation, planning and financing. It is a serious contradiction to define meticulously the public sector of the private economy, while never giving a thought to the possibilities of a private sector in the public economy. Such contradictions are testimonials to a lack of faith in the so-called verities of our system.

Such contradictions in the behavior of our foreign and domestic policies reveal in common the principal failing of American society today: we want to eat our cake and have it, too. In the figurative realm, this is surely a gem of a description. In the literal world, however, and this is a very literal world now, one must either choke in the pursuit of such a desire, or cease trying to turn the trick.

Strong men do not fear to call a spade a spade, be it descriptive of their virtues or their failings. Let us recognize our failings and concentrate on our virtues. And while we are at the process of self-appraisal, let us start practicing what we preach, or, barring that, change our preachments to fit our practices. Either way, we must establish a pattern of behavior that rests on a platform of principle. From such a platform, we can launch an earth satellite that will go farther than anything the Russians devise.

Now, this has surely been a most discordant note on which to usher in the New Year. Perhaps this piper has cold fingers. It is more probable, however, that he recognizes the need for a little dissonance to bestir a too-comfortably settled audience.—H.B.





# Challenge Notes

*Long-range danger; bridging the trade gap*

ALL OF A SUDDEN, it seems, the talk has shifted from the danger of secular inflation to the danger of short-run recession. Economists (and more particularly economic journalists) are always worried about something.

This is all to the good, for such worry enables us to be prepared against both eventualities. However, the danger of inflation is, in the long run, by far the more serious one. For while there is no conclusive evidence that we have licked depressions for good, we are all agreed that they *should* be licked. Government is required by law to do all in its power to maintain employment at "reasonable" levels; business firms are increasingly spacing their investments in such a way as to counteract cyclical tendencies; individuals are much better protected against sudden losses of income; and postwar recessions suggest consumer buying need not always decline when layoffs increase. At least, we are aware of deflation's problems and will

do all in our power to prevent it.

There is no such determination with respect to inflation. To the average man, the two or three per cent average annual price increases of the postwar period are naturally associated with the remarkable prosperity which we have enjoyed during this period. And it is a fact that in the last 2 years price declines have generally been associated with production cutbacks and increased layoffs. Faced with the alternative of substantial unemployment and mild inflation, the average man will choose mild inflation any day. And so, for that matter, would most economists.

That is why the battle against inflation cannot be won until it is generally recognized that this choice is not a real one and that economic growth and maximum employment can be achieved *without* inflationary stimuli. Actually, we still do not know very much about what is necessary for optimum growth *and* price stability. We have been so busy in the last

20 years with mastering the problem of depression that we have woefully neglected the kind of prosperity America needs in order to realize her full potential.

### **Bridging the gap**

**W**HENEVER international bankers and economists get together nowadays, there is one subject which invariably occupies most of their time: the problem of "trade gaps" and what to do about them. Whether they are discussing problems of currency convertibility, trade quotas, tariff walls, or ways of channeling investments into underdeveloped areas, they invariably come up against this gap between the limited and expensive resources of developed economies and the unlimited needs (and extremely limited ability to pay) of the less-developed economies.

What worries economists is that these gaps, which block trade and impede economic development in "have-not" countries, are increasing, not diminishing. Not only must production in these countries match tremendous population growth in order just to maintain living standards, but even in those countries where incomes are growing, the rate of growth is often very much slower than in the more highly industrialized nations. As a result, the ability of "have-not" countries to trade and to attract

capital tends to lag behind their growing need for foreign exchange and investment.

This presents the "have" countries, particularly the U.S., with a challenge which in the long run may be even more serious than that posed by Soviet earth satellites. For it is generally agreed that the future political complexion of the so-called underdeveloped countries of the world (who account for more than half of its population) depends in large measure upon our ability to solve the trade gap problem.

So far we have only made beginnings in this direction. Much of what we have done—for example, our foreign economic aid program, government insurance for foreign investments, etc.—has necessarily been of a stop-gap nature. Similarly, long-range, low interest loans by institutions like the International Bank perform a vital function, but they provide no basic remedy except for the long run, when it may be too late. What is needed is imaginative and comprehensive planning on an international scale. Nor should we be afraid of the word "planning." After all, it was the English conservative, Edmund Burke, who observed that "When bad men combine, the good must associate; else they will fall, one by one, an unpitied sacrifice in a contemptible struggle."—M.K.

# RAISING CAPITAL FOR *Small Business*

New efforts to ease the job of finding funds for smaller firms

by Rudolph L. Weissman

**B**RTAIN'S Prime Minister Harold Macmillan achieved an esoteric renown long before his present eminence. Since 1931, his name has been attached to a phrase, the *Macmillan Gap*, which describes the biggest problem of small business—getting more money.

A British parliamentary committee headed by Macmillan reported in 1931 that English businessmen were having great difficulties in raising permanent capital, especially equity money, in amounts *under* one million pounds. The Macmillan Gap is not confined to the Great Britain of the Thirties. Senator J. William Fulbright (D.-Ark.), chairman of the Committee on Currency and Banking, introduced a bill last year attacking the same problem in this country. Both governments were thus concerned with a gap that

private providers of capital failed to fill.

The typical reaction of a commercial banker is: "Any credit-worthy borrower can get a loan in keeping with the investment in his business and his credit history. We cannot risk the funds of our depositors. We have already departed from conventional commercial banking practice by making a substantial amount of loans for a period beyond a year."

The investment banker says: "Issues have to be salable and we cannot afford to buy securities and store them away. The cost of investigation is as large for a 500,000-dollar issue as for a five-million-dollar issue. The sales commissions on issues of small companies must be large enough to interest the salesmen."

This does not mean that the commercial and investment bank-



ers are avoiding their economic responsibilities. We have as little right to condemn them as we have to criticize a sound accountant for not being a marketing expert.

The small businessman thus has a double problem—how to get equity *and* loan capital. The difficulty of interesting investors is the greater problem because loans are not forthcoming until the borrower has collateral.

American mythology has it that the giant companies were financed publicly in their infancy. This is not true in the case of most of them, including the great firms in such industries as oil, automobiles, electrical equipment, steel, farm equipment, meat packing and dairy products. More typical is the history of Henry Ford, who interested a handful of private investors without the help of investment firms. Public financing took place much later, frequently in connection with a consolidation when the enterprise was of national scope.

What is a small business? The Investment Bankers Association prefers to define it as one with sales of less than a million dollars annually, with pretax earnings not in excess of 150,000 dollars. Others have used as a test a maximum of

a half-million dollars in assets or 250 employees. But it is obvious that "small" means something different in automobile production than it does in the fur or jewelry industries.

I would prefer to establish a definition purely in terms of the problem of raising capital. Thus, we can say that any company that has no ready access to the capital market is, by definition, small.

Small investment firms themselves can seldom assume the risk of tying up their capital on a slow-moving issue. The larger investment companies will normally contract to purchase a certain percentage of an attractive, large-scale offering. But the smaller agency must operate on the "best effort deal," where it does the best it can to sell the issue without risking its own funds.

The Securities and Exchange Commission recently reported that the cost of floating debt securities—bonds, notes and debentures—is 11.5 per cent for amounts between a half-million and one million dollars. Preferred stock, the SEC said, took 12.6 per cent of the proceeds, while common-stock sales costs were 27 per cent for issues under a half-million and 22 per cent for million-dollar issues.

There are other difficulties besides costs. Glamour is also important in the investment field, and a prosaic shoe company is at a

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disadvantage when courting the investor's favor in competition with glamorous uranium companies. The investor, moreover, finds the small firm a doubtful investment when there are heavy offerings of this type. He can reasonably expect that the pressure of supply will drive the price down and reduce the marketability of the stock. This was true in such favorable or comparatively favorable business periods as the Twenties, the year 1936, the 1945-1946 boom and the recent expansion period. The SEC was protecting the small investor effectively enough, but the small company seeking the small investor was getting no help.

### **Blanket-participation plans**

The Macmillan Gap was also recognized in the United States as far back as the Thirties. The Federal Reserve banks were authorized to make loans to small enterprises in 1934, but their discretion was carefully restricted. Congress also permitted the Reconstruction Finance Corporation to make loans on a more liberal basis. A high proportion of the authorized loans was never made, however, until World War II created a new situation. The relaxation occurred only under blanket-participation plans enabling the RFC to guarantee the loans.

The experience of the banks and

the RFC, moreover, indicated that the basic problem was not credit but equity capital. Companies backed by sufficient investments could usually get the needed loans. The most liberal credit policy, that of the Smaller War Plants Corporation under war encouragement, for example, was on a short-term basis and related to the performance of specific war-production contracts.

Other piecemeal efforts have concerned themselves with the lesser problem of credit. The Small Business Administration was created in 1953 to make business loans to small firms. It has already loaned out more than 360 million dollars. It limits its credit to 250,000 dollars and requires that applicants be rejected by two banks before considering their cases. The SBA participates with banks on some loans and guarantees other bank loans.

Private efforts have dealt with both the equity and the credit problem. They include the Louisville Industrial Foundation, the Filene Foundation of Boston and J. H. Whitney Associates. The American Research & Development Corporation was thus set up under the leadership of investment companies. It was designed to assume risks by backing young enterprises, particularly companies of a scientific character. Several investment companies

bought stock when it was capitalized at five million dollars in 1949. But the investment firms have not followed up their success with other operations.

New England has several private credit pools patterned after the pioneer Development Credit Corporation of Maine. Their major purpose is to enable existing manufacturers to expand, but loans have also been made to new firms. None of their efforts, however, are of a magnitude to suggest widespread application.

The advocates of small business sometimes get emotional about their needs. They have a good case, but I think the pronouncement of the Federal Reserve Bank of New England states it better in cold, objective terms: "Recent studies point to a deserving unsatisfied need for medium- and long-term credit and equity capital among going, small concerns. The unfilled need exists only in a minority of businesses, but these cases are frequent enough to make the problem important."

### **Established precedent**

Great Britain not only took the lead in recognizing the Macmillan Gap, but it also established a precedent for national governmental action to cope with it. In 1945 it organized the Industrial and Commercial Finance Corporation, which by March 31, 1957 had made

investments of 145 million dollars. The ICFC prides itself on financing firms which develop new production processes. Owned by British commercial banks and the Bank of England, it has apportioned 58 per cent of its funds to loans, 32 per cent to preferred stock and 10 per cent to common stock.

In Canada, the Industrial Development Bank was created in 1944 as a wholly owned subsidiary of the Bank of Canada. It confines its operations to loans covering mainly the cost of new buildings and machinery. The IDB's authorizations totaled 141 million dollars by 1956, with 52 millions still outstanding. Both the British ICFC and the Canadian IDB operate without subsidies.

The requirements of a similar institution in the United States should be: (1) sufficient capital, although the need may not be as great as some emotional observers see it; (2) broad authority, so that the management will not be hamstrung by restrictions; (3) recognition that the borrower will go to the capital market when the enterprise is of the proper size and that the investing institution will only supplement, not replace, commercial banks and investment bankers; and (4) private ownership and operation.

Legislative proposals in the past 15 years have been too numerous



to be listed and described. Some have been cumbersome and complicated. Senator Fulbright's bill seems to have the attributes of constructive finance, while at the same time, promising deserving firms the needed capital.

The Fulbright measure proposes the establishment of national investment companies, not to exceed one in each state, subject to the subscribed by the Federal reserve Board. Each company will have a minimum fund of at least five million dollars. The capital may be subscribed by the Federal Reserve bank or other financial institutions, corporations or individuals. The bank will purchase shares with the objective of ultimately disposing of them to commercial banks. The national investment companies may make secured or unsecured loans, or buy preferred or common stock of nonfinancial corporations.

The bill declares it to be the policy of Congress to foster the development and growth of independent small business enterprises, and to make capital for such firms readily available. It will be possible to attempt refinancing

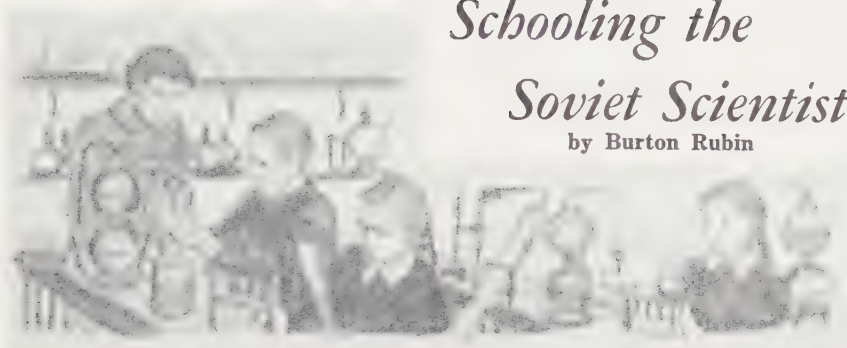
and offer securities through regular investment banking channels as the enterprises grow larger.

Preferred stock is perhaps the best means for the refinancing operation. It is very adaptable because the preferred stock provisions can be fitted to the specific case. The investor can be safeguarded by requirements limiting executive salaries and common dividend payments. The company itself finds preferred stock advantageous for several reasons. Thus, it does not hinder borrowing at commercial banks or obtaining credit, because it represents investment capital and not credit.

The Fulbright proposal meets the requirements that I listed for the desirable institutional organization. General supervision by the Federal Reserve Board would assure competent, nonpolitical and yet sympathetic management. We cannot accurately measure the extent of the Macmillan Gap in the American financial mechanism. But the need is clearly there, and the first efforts to meet it can help us make better judgments in the future. ■

### *A Bit of a Twist*

- IF YOU GET something for nothing, someone else gets nothing for something.
- WHEN YOU BUY something for a song, the accompaniment may not be so cheap.
- THE MAN WHO GOES through life looking for something soft will find it between his ears.



## *Schooling the Soviet Scientist*

by Burton Rubin

The Russian education system produces a militant army of well-trained scientists and technicians for the cold-war strategy

AS MANY of our educators enviously point out, education in the Soviet Union is a serious matter. The Russian secondary school and university student has no system of electives that permits him to scatter his choices among courses in safe driving, ballroom dancing, advanced physical education and mathematics made extra easy for the humanities major. The Soviets believe in hard work, long hours and rewards in another—nonacademic—world.

The West has derided Russia for centuries because of its clumsy imitations of foreign models. When Peter the Great set up the country's first institutions for higher learning in the 18th century, he had to draft students for them with typically harsh methods. The law school of the

University of Moscow, established later that century, began with a total enrollment of one. The West is now staring at the flood of excellent Soviet engineers and other scientific personnel pouring from a tremendous school system.

The numbers represent no compromise with quality. Social sciences and the humanities in the Soviet Union are, of course, trampled by the Marxist ideology and usually attract the less able or the quiescent. But the hard test of physical science requires demonstrable results, and Russian science, having survived a temporary tampering with genetics, is producing results of distinguished and, perhaps, frightening character.

The Soviet student spends many more hours in classes and in out-of-class study than our students

do. His government invests a greater proportion of the national product in its educational enterprise than ours does. The earnest character is built into the system by a series of incentives that insure that the long hours and government educational investment are efficiently used. The student knows that education opens the possibility of advancement to status and privilege.

### **Academic merit**

Entrance into Soviet higher education is determined almost solely on the basis of academic merit. The exceptions are the ubiquitous Soviet political reliability qualification, and, frequently, the advantage of being the son of a party or government bigwig. With the abolition of tuition fees beginning with the 1956-57 academic year, competitive entrance examinations became the only hurdle the students must jump to enter the ranks of the Soviet privileged elite.

The vast system of state scholarships, variously reported to support 75 to 90 per cent of the students in higher education, keeps the Soviet student serious. In fact, as the Soviet press often reports, the scholarship system places an unhealthy strain on many who are constantly anxious about losing them if their grades fall below par. But it also en-

sures that only the academically gifted are able to survive.

By contrast, tuition costs in American higher education are already out of reach for many. Indeed, half of the top 20 per cent of our high school graduates fail to go on to college. Other estimates show that about one-third of American high school students in the top two per cent of IQ scores do not go on to college.

Soviet students first encounter the sciences in the Ten-Year School, the basic unit of Soviet general education. The school is composed of three units: the elementary grades, one to four; the intermediate grades, five to seven; and the upper grades, eight to 10. Soviet pupils, like Soviet workers, work a six-day week. Classes run for 33 weeks a year, providing for a total number of class hours, over the 10-year period, of about 10,000.

In a recent study of Soviet education, the Office of Education of the U. S. Department of Health, Education and Welfare uncovered a disquieting fact. The study shows that Russian children get more hours of instruction in their 10-year system than American children do in the 12 years spent in elementary and high school.

What is of greater concern are

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Burton Rubin is Research Associate at Columbia University, specializing in the field of Soviet education.



the comparative figures on scientific training in the American and Soviet school systems. *Unlike our system where curriculums vary according to local conditions*, all Soviet students up to the age of 17 study the same subjects. In the eighth to the 10th grades, approximately 41 per cent of class time is spent on sciences and mathematics, with an over-all total of about 35 per cent for the 10-year period. Mathematics classes, which include algebra, geometry and trigonometry, are attended six hours a week, every year, for 10 years. Physics begins in the sixth year, at three hours per week, and continues through the 10th. Chemistry begins in the seventh year, at three hours per week, and goes on for the remaining four years before graduation.

### **Contrast and comparison**

In contrast, in 1955 less than one-third of American high school graduates had even one year of chemistry; about one-fourth had one year of physics, and only one in seven had taken any advanced mathematics beyond the arithmetic level. In 1954, 23 per cent of our public high schools did not offer any physics or chemistry courses at all.

How do the Soviet mathematics and science subjects compare to ours in scope? Nicolas DeWitt

of Harvard University, one of our leading experts on Soviet education, points out that a study of Soviet physics and chemistry textbooks for the ninth and 10th grades showed them to be comparable to those used by American college freshmen.

The Soviet graduation examination problems in physics are on an equal level of difficulty with those in our Advanced Placement College Board tests. These tests are taken by only a very few American high school graduates who seek to qualify for sophomore standing in college physics. All Soviet 10-Year School graduates encounter these problems.

In 1952, the 19th Soviet Communist Party Congress set the goal of compulsory 10-year education for all Soviet children by 1960. Advances made toward this goal in recent years have swelled the rolls of classes being graduated from the 10-Year Schools. Those graduates who are to go on to advanced training can choose either the higher educational institutions, or the *technicums* where Soviet technicians of middle qualifications are trained.

Until recently the technicums offered a four-year course of instruction to those who passed entrance examinations and had seven years of general schooling or its equivalent. In the face of the growing number of people

who were expected to complete the 10-Year School, shortened two-year programs were introduced in 1952. The training embraces all the specialties of the various Soviet social services and of the branches of the economy. Last year it is estimated that these technicums graduated 140,000 new engineering technicians.

### **Short of the mark**

As the relative number of 10-Year School alumni increases among these graduates, technicum training will become more clearly equivalent to that of the American two-year technical institutes above the high school level. Full and part-time students from our technical institutes and from the extension divisions of our colleges are graduating at the rate of 20,000 a year. Karl O. Wermath, President of the Milwaukee School of Engineering, estimated this to be one-eighth of the number we need.

Enrollment in Soviet higher educational institutions is well below our figure of 3.5 millions. This year there are two million students studying in the three categories of Soviet higher education—residence, extension and evening. It is, however, easy to be misled by this enrollment comparison. Of the nearly 800 Soviet higher educational institutions, 37 are universities, and the rest are tech-

nical institutes of various specializations corresponding to the technicums. Of the 700 technical institutes, some 200 are devoted exclusively to training various types of engineers. In 1956, the Soviets graduated 71,000 engineers; our graduating crop was 35,000.

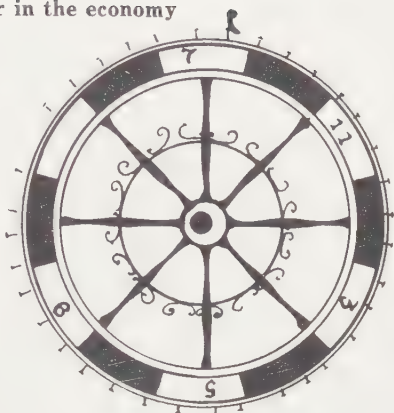
A further illustration of the enormous technical and scientific specialization of Soviet higher education is provided by the universities where Soviet scientists are trained. Of the total number of students in Soviet universities, some 50 per cent are enrolled in the pure science faculties—a figure that is unique and unparalleled in any other educational system.

One might wonder if the Soviet Union is not producing too much scientific muscle and too little reflective brain. The results might hurt the Soviet state, but they might also create another danger for the world. We can take little comfort from possible Russian incompetence in intellectual statesmanship.

But if we permit ourselves greater room for big thoughts in American education, it is obvious that we are not making effective use of it. The Soviets are teaching us that we need more students in the hard discipline of the physical sciences and more hard study in the other fields of scholarship. ■

# THE ECONOMICS OF CHANCE

by Richard E. Quandt



**I**NSIGHT into the future is essential when we try to gauge the effects of our actions, yet these insights are hazy more often than not. The businessman may decide to expand his factory because "the chances are" that his competitor will not do the same. Insurance companies will contract with a large number of individuals to pay their beneficiaries considerable sums of money, in return for relatively modest premiums, "on the chance" that these individuals will not die too soon. Stock market speculators may assume a short position "on the chance" that the market will decline.

Virtually all economic activities are affected by uncertainty which can be interpreted in at least two senses. It can refer to risky situations in which one can at least state the odds of the outcome. Or,

according to Prof. F. H. Knight's definition, it can refer to statistically unpredictable situations. It is the former type of uncertainty that is involved when we speak of "chance." Decision-making in the face of uncertainty of this kind can, fortunately, be perfectly rational.

In the broadest sense of the term, a game of chance is any set of circumstances in which several outcomes are possible, each one occurring with some probability. The attitudes of people confronted with risky situations fall into two clearly marked groups. Some individuals elect to become gamblers; others become insurers. Sometimes the same person is a gambler in one situation and an insurer in another. What is the rationale behind these attitudes?

In standard gambling games the individual puts up a small amount



of money which he is almost certain to lose in the hope of winning a large sum with small probability. This is the typical situation in betting on an outsider in a horse race or on a number in roulette. The insurer puts up a small amount in the fear that a considerable loss with a small probability of occurring will be realized. Of course, these are not the only situations in which insurance or gambling can occur.

### Principle of insurance

Since insuring and gambling are the only possible attitudes toward risk, the failure to insure makes one a gambler, and vice versa. It is not necessary for gambling that the amount risked be small or that the probability of loss be large.

The speculator who sells short may be gambling on a decline in the market. He may stand to lose a considerable amount, and the probability of a loss may be slight; yet he is a gambler unless he decides to become a hedger by maintaining a long position as well. The principle of insurance lies in accepting a small but certain loss (the insurance premium) in order to avoid an uncertain but larger loss.

Imagine the following gamble: a person has an annual income of 10,000 dollars. He owns jewels valued at 5,000 dollars, and he de-

rives so much satisfaction from them that he would immediately replace them if they were lost or stolen. Now assume that the probability of the jewels being stolen or lost in a given year is one in 50. This means that the jewels can be expected to be lost on the average once every 50 years. The probability of their not being lost is, of course, 49 out of 50.

In any year in which the jewels are lost, the owner's disposable income is reduced to 5,000 dollars since he immediately replaces the jewels. What is the owner's expected income position in any given year? Since the jewels are expected to be lost once in 50 years, that one year he would expect to have a disposable income of 5,000 dollars. In the remaining 49 cases, he would expect to have a disposable income of 10,000 dollars.

The jewel owner would have an income of 10,000 dollars for each of 49 years and 5,000 dollars for one year:  $10,000 \times 49$  plus  $5,000 \times 1$ , making a grand total of 495,000 dollars for the 50 years. Thus, he would have an average income of 9,900 dollars for any one year over the 50-year period.

Now, an insurance company informs the owner that he need not worry about the occasional loss of

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5,000 dollars: if he is willing to pay the insurance company 100 dollars annually, it will guarantee to reimburse him for the loss. A great burden is lifted from the owner. Although his income in any year will amount to 9,900 rather than 10,000 dollars, he need never fear a greater loss.

In both cases, the individual has the same average income; yet he is likely to insure. Why? The important clue lies in the fact that *a dollar lost is not the same as a dollar gained*. It is the same dollar bill, but the insured evaluates the worth of the dollar differently. Economists tell us that the utility of additional dollars tends to decline as the individual has more and more money. This is because we have no alternative but to satisfy our urgent wants before buying less important things.

Thus, any one dollar is worth more to the insured when his income is 5,000 dollars than when it is 10,000 or 9,900 dollars. And thus, 5,000 dollars lost in the one year out of 50 when the individual can reasonably expect to lose his jewels is a much greater blow than the insurance alternative. In this case, the loss of 5,000 dollars is spread over the 50-year period in terms of 100-dollar premium payments.

Actually, the insurance example is false on the above terms because the company must charge

more than 100 dollars annually to cover expenses and profits. Yet the average American would still be content to pay a premium of 150 dollars, or more. This is because the utility to him of the potentially lost dollars is so much greater than that of the dollars gained by not insuring.

But the gambler personality is the obverse of that of the average American. While the average man is, financially speaking, a moderate pessimist, the gambler is an absolute optimist. He would prefer to take his chance on not insuring. He refuses to permit the distinction between urgent needs and lighter wants to determine his scale of values. Thus, he ascribes more utility to additional dollar increases. The gambler could insist that he is being rational because he is getting more satisfaction out of the dollars gained than potential dissatisfaction from the dollars lost.

### **Rational or unreasonable?**

The average man would claim that the gambler was making a mistake because his scale of values ignored reality in the difference between necessity and luxury. The gambler could retort that he was being rational, if unreasonable, and that he could usually find a reasonable man to lend him money for necessities when he was completely out of funds.

There are other reasons why people become insurers or gamblers. Some persons may have a fear of taking chances, and no odds, no matter how favorable, could induce them to engage in gambling. Others may derive such satisfaction from the sheer act of gambling that they will take virtually any gamble, even though the expected outcome is much inferior to an alternative certain prospect. It seems, however, that behavior of this type is not the prevalent one and that people insure themselves or gamble for the earlier mentioned reasons.

The evaluation of chance-taking and of protection against chance is comparatively easy from the individual's point of view. Given an individual's inclinations, he becomes a gambler or an insurer. Of these alternatives, the latter is probably the predominant one. The existence of institutionalized methods of insuring oneself, either through an insurance company against fire and theft, or through the market mechanism as a hedging, increases the certainty of the outcome of an economic activity at a relatively small cost. The importance of this is considerable, for it allows the individual to plan economic activity in a world which is characterized essentially by uncertainty.

It is more difficult to evaluate

the effects of chance-taking from the aggregate point of view. For example, the effect of speculation in stocks or commodities has been a controversial point among economists for a long time. Speculation has been defended on the grounds that it tends to stabilize the market: when prices are low, speculators buy and prevent prices from falling further; when prices are high, they sell short and prevent them from rising further. Unfortunately, it does not always seem to work out this way. Speculators may continue to sell after the market has turned down, or they may continue to buy after the market has turned up. In each of these cases they may actually accentuate market fluctuations.

### **Easier interpretation**

In other areas, such as insurance, the record lends itself to easier interpretation. In recent years we have seen a considerable increase in the desire to eliminate the effects of chance. In the period between 1950 and 1955, the number of hospital insurance policies of all kinds increased from 76 to 112 millions. In 1955, the total amount of life insurance carried was 372 billion dollars, an increase of 138 billions since 1950. Even greater proportionate increases can be observed for other types of insurance, such as automobile insurance.



The second quarter of this century witnessed the introduction of additional methods of minimizing "chance," as shown by the creation of the Federal Deposit Insurance Corporation, unemployment insurance and the establishment of the Securities and Exchange Commission. Of course, protection against chance must be bought, and people are more able to afford protection when their real incomes rise. But the growth of protective agencies and the volume of insurance has exceeded the growth of real income.

Chance affects the course of the entire economy. Uncertainty may have many sources, and events may be more or less uncertain. The weather pattern surely affects the farming population, and thus the entire economy. In spite of the best possible weather predictions, there is still a great deal of uncertainty as to the amount of future rainfall. The state of the economy with respect to prosperity or depression also depends upon inherently unpredictable political factors: the threat of war and the resulting need for stockpiling; the desire for more foreign aid; and the urgency of an active missile program. These factors are much more uncertain than the weather.

One can at least state the odds of too much or too little rain, and one can therefore insure

against the undesirable outcome. One cannot do the same with respect to political events. The magnitude of these factors may well be overwhelming. One may ask oneself what would have happened to the level of employment in the United States in the post-war era if a cold war had not been forced upon the nation. But even in areas of comparatively great ignorance, one's actions are based on some expectations concerning the future.

The peculiar thing about the economy is that the expectations of people concerning what might happen are often crucial in determining what will happen. If enough businessmen believe that we are due for a recession, a recession might indeed materialize. The chance that such an undesirable situation will occur is therefore not independent of what people think the chance is.

Fortunately, the effect of expectations about an unknown future can be turned to good use and thus provide a form of insurance. For example, the nation's commitment to full employment is a form of insurance by creating the expectation that the chances of a serious recession are slight. The effects of global uncertainty cannot be completely eliminated, but the most harmful ones can perhaps be checked by creating favorable expectations. ■

# How the Soviets "Plan" Their Prices

by Gregory Grossman



The Russian price system defies the usual market factors and penalizes the one sector that cannot talk back—the consumer

SOVIET ECONOMISTS and planners are presently engaged in their biggest economic debate in three decades. This debate, which is undoubtedly sanctioned from above, is no doubt prompted by the realization that the economy is not operating as efficiently as it could. Much of the attention is concentrated on the price system.

A most important function of prices in any economy is "resource allocation," that is, indicating to all concerned how and to what purposes the society's scarce resources are to be used. In our own economy, prices perform this function because individuals and businesses at once heed costs and pursue opportunities for monetary gain; while the prices themselves are determined, generally speaking, by the interplay of de-

mand and supply in the market. Despite the fact that production and distribution in the Soviet Union are largely governed by central planning rather than by the pursuit of private gain, the actual structure of Soviet prices and costs does significantly influence the decisions of the planners and managers and affects the efficiency of resource use.

There are two main types of economic agent in the Soviet Union: *individuals* (families, households) who provide labor and who consume goods; and *the state*, which owns nearly all the productive capital, directly or indirectly plans and manages nearly all economic activity, and provides various government services, such as education and defense.

With these two types of eco-

nomic agent there are four possible types of transactions; thus, we may divide the Soviet price system into four parts:

•*Prices in transactions between individuals* are not directly controlled by the state. Such transactions constitute a "free market" which is of considerable importance in the Soviet economy, and most of it is perfectly legal. Collective farms or their individual peasant members sell foodstuffs to the urban population, people buy and sell secondhand goods, and so forth. As in free markets anywhere in the world, prices in the Soviet free market are determined by demand and supply, although the state does influence them indirectly because of its overwhelming role in the economy. In the other three types of transactions the government sets prices by decree.

•*Prices charged by the state in sales to individuals* are a most important category since the bulk of the Soviet people's purchases from the state.

The state sets the over-all retail value of its consumer goods high enough to enable the government to recapture the money and social benefits it pays out to workers and peasants. This is done to

forestall an undue increase in the population's cash holdings since this may lead to a decline in work-incentives. However, less than half of the money incomes are paid out to producers of consumer goods and the materials that go into them—the remainder being paid out to producers of investment goods, munitions, government services, and in the form of social benefits. Therefore, the government boosts the retail value of consumer goods to approximately double their cost of production in order to bring it up to the level of disposable money incomes. It does this by letting state-owned factories and stores earn profits, and by levying large excise taxes, called "turnover" taxes, on consumer goods. On the average, these taxes and profits together account for half or more of the retail price paid by the individual to the state. The state in turn uses the revenue to pay for the machinery, munitions, teachers, bureaucrats and all the rest that the state produces or employs for its own end-use.

How are specific consumer prices determined? Consumer goods are not formally rationed at present, and the planners try to set each price at a level just high enough to equate the planned supply with the anticipated demand. As more goods become available, prices are reduced (as

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was done several times in the last decade) chiefly by lowering the turnover tax rates. But the planners cannot accurately anticipate all eventualities; besides, the distribution network operates very inefficiently. As a result, prices in the state stores often fail to equate supply and demand. In spite of the typically poor quality of goods, demand frequently exceeds supply at the fixed price, which is another way of saying that the price is often set too low.

### Prices and wages

•*Prices (including wages) paid by the state to individuals.* The largest category here is the wages and salaries which the state pays to the 50 million individuals whom it directly employs. Generally speaking, their wages are set so as to (1) induce the labor force to distribute itself among the different industries, occupations and regions according to the planners' intentions; and (2) spur productivity on the job, chiefly by means of elaborate piecework rates and bonuses.

The state also pays prices for farm produce, either directly to the peasants or to the collective farms. Agricultural producers tend to adjust their production and marketing according to the relative attractiveness of the prices quoted to them, at least

with respect to amounts above the compulsory deliveries to the state. This is why, in his attempts to increase agricultural production, Khrushchev has repeatedly adjusted the structure and level of prices paid to farmers, and on the whole has raised them very considerably in recent years.

•*Prices within the state sector.* The Soviet state covers the same area of economic activity as is covered in this country by "government" and "business" together. It has hundreds of thousands of departments, enterprises, stores and other economic units, which engage in a vast volume of transactions with one another. One may be tempted to assume that the prices involved in these transactions are unimportant since they merely shift funds from one government pocket to another. This is not so, for these prices also determine how the numerous managers and planners will choose among the possible alternatives open to them. Thus, the prices (and therefore the costs) within the state sector affect what will be bought and produced, and what processes will be used in production.

Although the Soviet manager's primary concern is to fulfill and surpass his production quota, he is not indifferent to the cost of his materials, services and labor. Not only is he directly en-

joined to keep expenses down, but he also has an interest in greater profits, which enable him to ease his financial position, to carry out various improvements, to distribute bonuses and to raise his standing with his superiors.

### **Limited choice**

Yet, in general, the Soviet manager's choice is quite limited, most of the important decisions being reserved for the central planner. It is therefore in the work of the planner, who also is supposed to watch costs, that the prices in the state sector assume great importance. Planning on the technical level is largely a matter of choosing between alternatives. Should atomic power stations be built instead of conventional ones? Should cement plants be small and widely scattered, or large and few? Should a certain kind of machinery be more or less automatic? Problems of this sort come up daily before the planners, and to a large extent they are solved by weighing the relative costs of the alternatives. Are the prices of producers' goods (i.e., prices that compose the costs with which the planners and managers have to contend) such as to lead to the most efficient use of the existing resources for attainment of the goals set by the government? This, in effect, is one of the major questions that

Soviet economists are asking.

Generally speaking, the prices of producers' goods are now set by central authority for several years at a time. For any one item, the price is uniform either over the whole country or over a region. Typically, it is set to be equal to the average cost of producing the good in the whole country (or within the region) plus a small markup to yield a profit.

Cost is thus the primary determinant of price, with demand receiving relatively little consideration in price-setting. The chief reason for this is doctrinal, although considerations of planning convenience probably also enter. Marxists believe that labor is the only creator of exchange value, and that commodities have value in proportion to the average amount of useful labor embodied in them. Since, in the Soviet economy, almost no interest or rent is charged for the use of capital and natural resources, costs are, in the final analysis, resolvable almost entirely in terms of labor cost. By setting prices roughly at the level of average costs of production, Soviet economists feel that they are conforming to the Marxian "labor theory of value."

There is no assurance that a price set in this way will equate the demand for the good with its supply, and we may suppose that

the prevailing method of price formation sometimes aggravates the pressure of demand on the available supply, which is so typical of the Soviet economy. In some cases, however, the price of a producers' good may be raised considerably above cost to choke off excess demand, or to bring it closer into line with prices of substitute goods. Thus, oil is taxed heavily to make coal more competitive with it. In a sense, therefore, prices within the state sector represent the worst of both worlds: they neither conform consistently to Marxian doctrine as interpreted by the Russians, nor do they respond fully to demand conditions.

In their current debate, Soviet economists are agreed that the system of producers' goods prices needs improvement, but they are divided on how to go about it. Some, apparently a small though influential minority, would keep the present system on the whole, but would allow individual prices to deviate more frequently from the level of average cost of production to bring them into line with prices for competing goods and to recognize the pressure of demand. Others vehemently—and often quite dogmatically—reject this on doctrinal grounds and insist that prices be proportional to the average costs of production, as the Marxian “law of value”

demand. But even within the last group, there is disagreement on how this is to be done.

The search for a more efficient Soviet price system is not likely to be very successful as long as it sticks rigidly to the Marxian labor theory of value. Since planning is the weighing of alternatives for the sake of efficient resource allocation, the price of any producers' good should primarily express not the labor that goes into its production, but the contribution that the good can eventually make to the national product. In this way, each planner or manager can base his decisions on prices and costs which truly represent the relative importance of the goods to the economy at large, given the goals of the plan.

This is elementary “Western” economics, but we should not expect the Russians to take many leaves out of a Western textbook in resolving their present problems (as, for example, Polish economists are now doing). Not only would such a course be ideologically unpalatable to them, but a more flexible price system, with the greater freedom of local decision that it implies, would also hardly win the approval of a distrustful and power-jealous regime to whom centralization of authority is the essence of control over the economy. ■



## GE's Cordiner— Rebel With Cause

**G**ENERAL Electric Company, in the official biography of its president, prefers to forget that Ralph J. Cordiner once deserted the organization. It is willing to note his service as vice chairman of the War Production Board, where Charles E. Wilson, then on leave from the GE presidency, called him to function as his right-hand man in the war effort. But Cordiner had left GE to become president of Schick, Inc. in 1938, and that is where he was when Wilson called for him in 1942.

Loyalty to the organization is a quality that all organizations like to emphasize, and the Schick adventure is not recommended to promising GE executives. Nevertheless, GE itself adopted a more than forgiving attitude and rewarded the prodigal son with the



presidency in 1950 to succeed Wilson.

The reasons for the departure and return help explain why GE is such an effective corporation, and why Cordiner is such an able executive. The fact is that GE needed a GE man with non-GE ideas, and it had sense enough to realize it. The company had been a magnificent one-man show under the late Gerard Swope and Wilson. As many as 47 management committees were upstaged by the scintillating Swope and the dynamic Wilson, and the diffusion of responsibility must have been frustrating for middle executives who wanted to get things done on their level. Cordiner was one of them, and he welcomed the opportunity Schick gave him to run his own show.

But the new GE president remembered the frustrations which had led him away from the organization. He had no intention of rivaling the personal ascendancy

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With each issue, CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

of Swope and Wilson. From 1943 to 1950, he was assistant to the president, and his assignment then was to reorganize the company. GE had become too big for one man to run, and Cordiner's planning accepted his future self-abnegation as a first principle.

In a series of lectures he gave last year at Columbia University, Cordiner noted the GE business increase. Sales were at 233 million dollars in 1935, 1,377,000,000 dollars in 1943, 2,319,000,000 in 1951, and four billions in 1956. GE had 76,000 employees before World War II; it now has 300,000. The problem was how to *manage* the operations without *running* them.

Cordiner turned GE into a confederacy of nearly 100 almost autonomous companies, called departments. Each department head operates as if he were a company president, to the extent that he sets prices and competes with other GE departments.

The president still has the big decisions to make. In the present-day ionosphere of corporate planning, Cordiner must consider such matters as war and welfare, gross national product and trade gaps.

In his lectures, Cordiner emphasized that GE has no more "assistants-to," and he added that it had "no place for committees as decision-making bodies." He is aided in top policy formation by the president's office, composed of the

president, the board chairman and five executive vice presidents. But responsibility for the decisions themselves remains clearly defined in terms of the man-on-the-spot throughout the organization.

"The executive vice presidents, in GE, are true executive vice presidents," Cordiner said. "That is, they have been freed of operating responsibility and administrative demands so that they can devote their time to long-range planning. . ." How important the long term is to Cordiner can be seen in another statement: "But my effectiveness won't be judged for 10 or 15 years."

Part of the long view includes replacements for Cordiner, now 57, and for other executives. This led him to set up, in Crotonville, N. Y., a training center for advanced management techniques. [CHALLENGE, *November 1957*, page 69]. "The work of managing," Cordiner said, "is tending to become professional, as a distinct kind of work in itself. . . The professional approach requires, in fact, a dedication of the man's self and service, not only to the owners of the business through his board of directors, but also as a steward to the company's customers, its employees, and to the company at large."

On these standards Cordiner's effectiveness may not take another decade to determine.—D.F.

With increased mechanization, service industries should begin to catch up with productivity trends in other sectors of the economy



## SPEED UP IN SERVICE

by John W. Kendrick

CONSIDERABLE publicity has been given to the fact that employment in America has been rising faster in service industries than in commodity-producing industries. Does this mean that the output of services has been increasing relative to the output of commodities; or does it primarily reflect lagging productivity in the service industries? If productivity advances have, in fact, been slow in service industries, a catching-up in this area would be most important since it could accelerate the rise of productive efficiency in the total economy.

This article will bring some new evidence to bear on the question of long-term and recent productivity trends in the service area. We shall also consider future prospects.

What are the distinguishing characteristics of the service industries? In the broadest sense, of course, all economic activity involves the rendering of services by

individuals in the form of labor, capital or natural resources. In some industries, labor and capital work upon tangible raw materials in the production of commodities. In other industries, the services of labor and capital are rendered directly to the consumer. But while commodities can be stored by producer or consumer, services usually must be consumed even as they are produced.

Between 1899 and 1955, the proportion of "persons engaged" in rendering services increased from 32 to 44 per cent. If we include government employees, who produce mainly services, the increase was even greater—from 36 to 57 per cent. But since there is no reliable way of measuring the output and productivity of government, we must, for the moment, exclude it from our quantitative analysis. Within the private service area, we must further distinguish between transportation, communications and other public

utilities on the one hand, and trade, finance and services (personal and professional) on the other. While there was a small relative decline in persons employed in the utility group, the other service industries all showed increases, especially trade.

A glance at the table on page 31 reveals that total output of services did indeed grow more than output of commodities, although here again we must distinguish between utilities and other services. Thus, output in transportation, communications and public utilities rose faster than in any other group, due primarily to the growth of telephones, electric and gas utilities, motor transport, pipelines and airlines. On the other hand, the core of the service sector—trade, finance and professional and personal services—showed a significantly *smaller* increase in output than the commodity-producing sector as a whole.

### **Rough figures**

These figures are rough, because it is not, generally speaking, as easy to measure the units of the various types of services as it is to measure the physical units of different commodities. In trade, we measure output in terms of the physical volume of goods passing through trade channels. The output of the transportation indus-

tries can be expressed in terms of freight-ton-miles and passenger-miles. Message units are used in communications, and kilowatt hours of electricity and cubic feet of gas are reported by the utilities. Money transactions, deflated by appropriate price indexes, give a rough notion of output in the finance area. The dollar volume of personal and professional services can be deflated by a composite of prices for standard services—such as doctors' calls, appendectomies, tooth extractions, theatre admissions, and the like, collected for the consumers' price index. In spite of some of the crudities of measurement, I do believe that such output and productivity indexes give us an adequate general picture of relative trends.

Since the rate of increase in the output of trade, finance and services lagged behind that of commodities, while the number of persons engaged surged ahead, this means that productivity advances were relatively less in these areas. This is borne out by the statistics, which show that productivity increased at an average annual rate of only 1.5 per cent a year in service industries, while productivity for all private industries increased an average of 2.5 per cent.

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Despite the relatively smaller rise in *output* of trade, finance and services, it is the still smaller rise of *productivity* which explains the relative increase in the number of service man-hours worked. Actually, the relative increase in the number of *persons* engaged in these industries is greater still, since average hours worked in the service area declined more than in the commodity industries.

Has there been a tendency for productivity in the service area to accelerate in recent years? Statistics indicate that it has in absolute terms, but not in relation to other industries. Between 1948 and 1955

output per man-hour in the trade, finance and services industries rose at an average rate of two per cent a year, compared with an annual average increase of 1.5 per cent for the last 58 years. But this two per cent is still only a little more than half the 3.5 rate of productivity increase which has prevailed in the economy at large since 1948—the same proportion that existed over the long period. Despite improvements in productivity, the service industries are continuing to absorb an increasing proportion of labor.

But why has productivity increased in the service industries

### *Output, Labor Input and Productivity*

Index numbers, 1955 (1899 = 100)

|                          | Output | Output<br>per man-hour | Man-hours<br>worked | Persons<br>engaged |
|--------------------------|--------|------------------------|---------------------|--------------------|
| Private economy          | 735    | 427                    | 172                 | 220                |
| Commodity industries     | 672    | 477                    | 141                 | 162                |
| Agriculture              | 153    | 215                    | 71                  | 67                 |
| Mfg., mining, constr.    | 822    | 364                    | 226                 | 289                |
| Service industries       | 784    | 361                    | 217                 | 335                |
| Transp. & utilities      | 1,680  | 1,210                  | 139                 | 200                |
| Trade, finance, services | 560    | 233                    | 240                 | 378                |

at all? The main reason has been the speeding-up of technological advance applicable to services, which, in turn, has led to an increase in the amount of capital expended per service worker. A brief review of some of the more striking innovations of recent years in the service area will give some clue as to whether we can expect further acceleration.

Improvements in business machines generally, and the introduction of electronic data processing equipment in particular, have contributed to reduced costs in the service area, particularly in finance. For example, ERMA (electronic recording machine, accounting) developed by the Stanford Research Institute for the Bank of America, credits and debits individual accounts, remembers details of all transactions, maintains correct balances, accepts stop payments and holds orders, prevents overdrafts, and sorts checks that are coded with magnetic ink. An over-all balance is struck at the end of each day and month. Several larger banks have installed electronic systems, and despite present high costs of computers, smaller installations or cooperative central systems hold promise for smaller banks.

Life insurance companies have thus far been bigger buyers of electronic data-processing equipment than banks, since their com-

putational and record-keeping operations are even more staggering. Large stores, professional services and universities—not to mention the government—are other beneficiaries of this form of automation.

Mechanical handling systems have done much to reduce manufacturing costs per unit. More recently, highly automated warehouses have been helping to cut costs of wholesalers and retail chains. Electronic controls, monorails and conveyors speed the flow of merchandise, and paperwork is closely tied in with the physical handling. Punch cards that guide the goods are also used to type store bills and bills of lading. The firm that designed and engineered an "automatic warehouse" for Mangel Stores Corp., estimates direct labor savings of 50 per cent or more. The ideal is a "distribution center" with a continuous and balanced flow of goods which reduces storage and saves rent and interest on capital tied up in inventories. Data-processing equipment also reduces the time lag between sales and price-line analysis, an important factor for merchandising control.

### **Increasing specialization**

It is not necessary to describe the supermarket which has captured more than half of the retail food market. Also familiar are

the wonder drugs and other pharmaceuticals that increase the productivity of the medical profession; the commercial and educational applications of television; the manifold household appliances and prepared foods that have reduced the need for domestic servants and increased productivity in households. Less apparent is the increased efficiency that has come from increasing specialization of professional persons and firms in the service area.

It is hard to see how productivity can be raised substantially in the professional services which demand flexible and creative thinking. But use of the electronic computer by consulting firms speeds problem solving and extends the range of the human mind. And research into the process of inventive thought itself holds promise of greater returns in the future from research and development activity.

Clearly, some of the technological developments that are helping to raise productivity in the service industries are only in their beginning. For example, of the 17,000 banks, insurance companies and other financial institutions, only a few dozen have installed office automation. The fact that less than one per cent of all research and development outlays are being spent by the service industries (other than the utilities) suggests the tre-

mendous potential for further technological advance in this area.

If management of firms in the trade, finance and service area seeks even more aggressively in the future than in the past to adopt the new equipment and organizational improvements that are applicable, there is good reason to expect further acceleration in productivity. Since the service area now employs more than half our labor force, a further acceleration would mean a noticeably faster rate of productivity advance in the economy as a whole, assuming that the commodity-producing industries maintain their past rates of advance.

With further acceleration of service-industry productivity, the trend towards an increasing proportion of the labor force working in this sector would probably slow down, if not cease. Prices of services would not rise as much, in relation to prices of commodities, as in the past, and a relatively larger volume of services would be consumed. Planes of living would thereby be raised, and the material basis for national security strengthened.

While productivity advance in services and the economy as a whole cannot be predicted with certainty, further acceleration is *possible*. Converting the possible into the actual provides a major challenge to industrial leadership.■

## J. Burke Knapp

Vice President, International Bank  
for Reconstruction and Development



### The World Bank: Crediting Global Progress

**Q** *Mr. Knapp, just what is the International Bank for Reconstruction and Development? Would you give us a brief history of it?*

**A** The bank, sometimes referred to as the World Bank, is a cooperative institution owned and administered by 64 member governments as a service primarily to the underdeveloped countries of the world. It was created near the end of World War II, at the so-called Bretton Woods Conference, for two purposes: first, to aid countries in the reconstruction of war damages; second, to move into the longer-term job of helping the underdeveloped countries. Our initial endowment of capital from our member governments amounted to something over a billion dollars, and we have further financed our operations by floating bonds in the financial markets of the world. At the present time, we have bonds outstanding in the amount of about 1.25 billion dollars, primarily dollar bonds, but also in various other currencies. A little more than half of our bonds have been sold to foreign investors, with the remainder going to American investors. As for our capital actually employed in the business, about half has so far been supplied by the U.S. and about half by foreign countries.

**Q** *What would be your estimate of the amount of money loaned out by your organization, and in what way have these funds been distributed?*

**A** Our loans so far have amounted to about 3.4 billion dollars, in-



cluding 0.5 billion of reconstruction loans and 2.9 billion of development loans. Of the latter, about a third has gone into electric power development, another third into transportation and communication. A final third has entered agricultural development, industry or general programs of development embracing several sectors of the economy. The area distribution of our development loans falls roughly into quarters. About 25 per cent has gone to Europe—especially the less-developed portions of Europe, such as southern Italy, Finland and Turkey. We have lent about one-quarter of these funds in Africa and Australasia. Another quarter has gone to Asia, with India as the largest borrower in that area. The final portion has been borrowed by the Latin American nations.

*Q When you spoke about building up the bank's capital with bond flotations, there is the implication that such bonds bear interest—suggesting that the bank would be able to pay interest charges. In other words, you are in business. Is the World Bank run as a business?*

*A* Yes. The bank has two major roles to perform. Our predominant role is that of a business institution, one not seeking a commercial profit, but seeking to conduct business on a self-supporting basis. The money provided for our operations must be repaid. The bank's second characteristic is as an institution dedicated to the welfare of the peoples of underdeveloped countries. As our organization is run on a completely self-supporting basis, we cannot supply funds to a nation that will not be able to repay us. The U.S. has a substantial aid program to meet such situations.

*Q Are negotiations conducted exclusively between the bank and a foreign government, or are the representatives of private industry also included?*

*A* Some of our biggest loans have been made to private companies—to the Brazilian Traction, Power and Light Co., for instance, and to the two private companies that manufacture steel in India. However, we are required by our charter to obtain a government guarantee on a private loan.

*Q Since you use standard business criteria to judge whether a particular loan is safe, why couldn't private capital do the job?*

*A* Our job is to mobilize private capital to serve sound investment

purposes abroad. Without our intervention, this would often not take place. We are bound under our charter not to compete with private capital, and we never undertake a job that private capital could do unassisted. But, with the conditions that exist in our postwar world, it is natural for private capital to be hesitant in undertaking many kinds of productive foreign investment without some special assistance. We are anxious to have the participation of private investors, and in fact we have enlisted more than 300 million dollars of private capital in this way.

### **Strong market for World Bank bonds**

*Q What security is the World Bank able to offer to potential buyers of its bonds?*

**A** The buyers are protected in various ways: we have as security the amounts due us on loans; we have substantial reserves; and we have the right to call on our member governments for capital which they have pledged but not paid in—this last being in the nature of a guarantee fund.

*Q Would you say you have a strong market for your bonds?*

**A** The market for our bonds is very strong. In fact, we sell our bonds at interest rates only slightly higher than those available on U.S. government bonds. During more settled times, we used to figure that if U.S. government long-term bonds, for example, were selling at 3.5 per cent, then we could sell at 3.75 or four per cent. However, with the unsettled conditions of the market today, both the government and the bank would have to offer somewhat higher rates of interest.

*Q Have you ever had difficulty in getting a full subscription?*

**A** No, we've always been able to raise the necessary amount of money. The bank's history of never having had any defaults on payments has been an important factor in establishing our high credit standing. In fact, we have set aside from our operations reserves totaling more than 300 million dollars.

*Q Does that mean that you have never had to use the guarantee fund?*

**A** Never. With the reserve funds available, we could suffer substantial losses without having to call upon the guarantee fund.

*Q Earlier, you spoke about the 64 member countries. Have you ever extended loans to nonmember countries?*

A No, all our loans are made to member countries. Under our charter, we cannot make any loans to nonmembers.

Q *How was the pro rata structure created in setting up the capital subscription from member countries?*

A It is weighted roughly according to the economic strength of the different countries. The U.S. has about 30 per cent of the bank's capital; Britain has about 12 per cent, and so on down the line.

Q *Regardless of the amount of contribution, all member countries have an equal right to come to the bank for loans.*

A That's right. Bear in mind, capital participation has no relation to the amount of loans that a country can get.

Q *How is the bank organized and governed?*

A The bank has an international board of directors, in which all of the countries are represented. The large countries appoint an individual man, while the smaller ones club together to elect a director. In all, there are 17 directors on the board which must give its approval before any loan is made. Decisions, of course, are made by majority vote, with each country's vote weighted according to its capital subscription. The day-to-day business of the bank is handled by its management, but questions of policy are the domain of the board of directors.

Q *Your membership has increased since the bank's inception. How does a new member go about joining your organization?*

A A country must first submit an application and then be voted into membership. It must agree to make a capital contribution judged by the present membership to be consistent with its economic strength.

Q *Are there any Iron Curtain countries in the membership?*

A No. Poland and Czechoslovakia were members at the bank's initiation, but they have left since falling under Soviet Russian domination. Yugoslavia, however, is a member.

Q *How has Yugoslavia made out with her loans? Have any of them matured?*

A Yugoslavia's loans were used effectively for a wide variety of purposes—in particular, power development and industrial and mining installations. They are being repaid regularly.

Q *Theoretically, a country's political system has nothing to do with its membership with the bank.*

**A** That is correct. The charter provides that we should not be governed by political considerations, but strictly by economic ones. However, a country's political affiliations may have a great deal to do with its capacity to service its debt in foreign currencies.

**Q** *How does the bank work with countries in planning projects?*

**A** We try to encourage the feeling in our member countries that we are their banker and adviser. Often, we aid them in planning the expenditure of their funds. We help them set up agencies to administer projects, and sometimes we help find local financing to take care of some of the more immediate problems.

**Q** *It has been hinted that the World Bank is a quasi-official arm of the U.S. State Department. Would you care to comment on that?*

**A** It is understandable that our being located in Washington and having an American president might make some nations think we're just another American government agency. This is certainly not true. We run our affairs strictly on business principles. Also, we have an international board that supervises the conduct of our business on an international basis. However, as the U.S. government is our largest stockholder, it has a very important voice in our policy decisions, and it is difficult to imagine our making a loan in the face of serious objections by the U.S. government.

### **Help foreign countries provide basic public services**

**Q** *Let's get on to the bank's activities in industrial development in other lands. What direction has this development taken?*

**A** In general, we believe that our main role is to help foreign countries provide basic public services, thus enabling private enterprise to carry forward industrial and agricultural development. However, we have made a substantial amount of loans to private industrial enterprises, though not in a great many countries. In India, for example, we have lent a considerable amount for the development of the private steel industry. The difficulty that we may encounter in lending to a private firm is that the required government guarantee may lead to undesirable government intervention in the company's affairs. In India, this has not been a problem, because the government has given its guarantee without imposing burdensome conditions. To deal with the



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difficulty arising from the bank's guarantee requirement, there was recently created the International Finance Corporation, an affiliate of the bank, which is administered by the same board of directors but is financially a completely separate operation. IFC does not make loans at a fixed rate of interest, but provides capital for industrial enterprises on more flexible terms, normally involving participation in the enterprise's profits. IFC offers its capital as a partner in the venture and does not seek any government guarantees.

**Q** *Mr. Knapp, how much money do you think it would take to bring a modicum of relief to the poverty-stricken areas outside the Iron Curtain?*

**A** I don't think I can give you a quantitative judgment on how much money would be needed. The important thing is that we show progress in these countries and thereby counteract the appeals of communism. Indeed, it often is a question not of how much money is provided, but rather of how fast you can develop the talent and organization to execute the job.

**Q** *Has the lack of talent hampered the bank's objectives?*

**A** Yes, but we do what we can to meet this problem. Of prime importance is our Economic Development Institute here in Washington which provides a training course for senior administrators from the undeveloped countries. We have usually been able to give technical and administrative assistance on projects we finance, and in many cases we help countries find foreign experts to advise or assist in the execution of their development plans.

**Q** *Is there any prospect of increasing the amount of money that the bank has to work with? Is there any need for such an increase?*

**A** No, I don't think there has proved to be a need yet. Through our capital subscriptions and borrowings we have thus far been able to support projects that we considered suitable for World Bank financing. However, the tempo of our lending has been stepping up considerably. During the last three fiscal years, the bank made new loan commitments of approximately 400 million dollars per annum. This year our lending rate will be substantially higher than that, and looking into the near future at least, it appears that this accelerated lending rate will continue.

**Q** *Thank you, Mr. Knapp.* ■

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# How to Be a Success



DRAWINGS BY

*Wom*

*A concentrate of  
advice by experts*



3



*Let your incandescent power  
outshine your patched  
undershirt and your  
title of Collector of  
Medium-sized Twigs*

5

*Approach the world with an  
electric handshake, zinging  
voice, bouncing step,  
wrap-around smile, eagle's  
glance and IBMing brain*

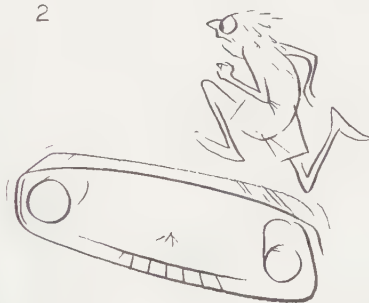


1



*Creative work requires long  
houghts. Take on a hobby; relax!*

2



*Work for success; beat the clock watcher*



*Observe the  
successful man  
--how he gives  
orders, knots  
his tie, picks his  
suit and  
designs his home*



6



*Osborn*

*Don't poop out!*

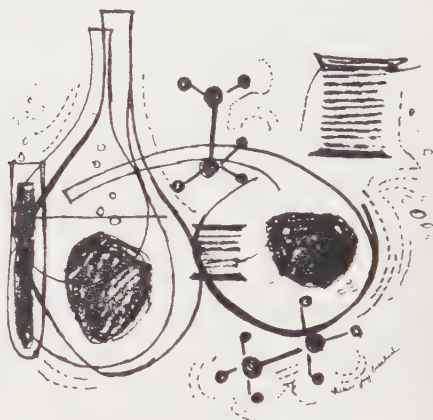
Research requires bigger investments, but it produces bigger profits

# Industrial Research Pays Its Way

by Robert P. Ulin

IT IS NOW CLEAR that 1957 will go down as the year when scientific research became big business in the U.S.A. If there were any question about this proposition, the Russian *Sputniks* and the frantic rush to put American space research on an equal basis would have swept the doubt away. But even before all this happened, the expenditure for scientific research conducted by private industry was scheduled at seven billion dollars for 1957. This is almost twice as much as was spent in 1953 and equals the total capital expenditures of the manufacturing industry for 1946. It is estimated that products not yet manufactured in 1956 will account for 50 billion dollars of sales in 1960.

Postwar research has already produced notable scientific advances—including the antibiotic drugs, the first use of solar energy and the much publicized work on



space satellites. It has also provided us with a fantastic and frightening array of military weapons, and, therefore, with a wider margin of national security and insecurity, than we could otherwise expect. However, the *economics* of industrial research have received much less publicity than the scientific and military benefits. And as research begins to concentrate more on commercial products, the economics will soon begin to dominate.

Certainly, the economics of *research* are not the same as the economics of *invention*. For the seven-billion-dollar research and development industry of today is not in the hands of individual inventors working on isolated problems. Modern research is conducted chiefly by large companies



as part of their other business operations. Sixty-five per cent is now entirely financed by private industry. Such research is related to *industrial* objectives—not to military or purely scientific objectives that prevail for research sponsored by government or the universities. The key question for this kind of research conducted as a large-scale private investment is: Will it pay?

There is no question whatsoever that research pays—and pays very well—for certain companies. The development of colored aluminum trim for automobiles and aluminum cans for packaging means millions of pounds of new demand for the metal producers. The additional sales will repay the cost of research many times over. The sensational success of “wash-and-wear” suits for men—which outsold all others in the summer of 1957—has so increased the market for Du Pont’s Orlon and Dacron that it clearly paid the chemists to devise these “miracle” fibers.

But other questions remain: How well is research going to pay for the newer companies? How much research can the economy effectively utilize? How much overall sales, for example, will finally result from the seven billion dollars invested in research in 1957?

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And how many years will it be before these new sales and profits are realized?

The answers to these questions must necessarily be rough and ready. Industrial research on today’s scale is something new for any economy. And many of the products to be sold in the 1960s are not even on drawing boards at the present time. However, we do have examples of successful research programs, and it is possible to say something about (1) the time cycle of new product development; (2) the rates of return to be expected; and (3) the necessary conditions of success.

Major companies in the chemical, electrical, aircraft and light metals industries have been conducting systematic research since before World War II. And these companies have worked out a rough time schedule for developing new products. As a rule of thumb, it takes from four to six years of work by the company research department to translate basic scientific findings into specific products that can be sold.

At this point, a pilot plant may be built, and limited quantities of the product will be turned out for about two years—to gain production experience, improve quality and reduce costs. For scientific products, time is needed to apply for a patent on the new product, an action demanding as long as two

years under our cumbersome patent procedures. For consumer products, this is the period of market testing—in which limited quantities are tried out for customer reaction.

Thus, in most cases, at least *seven years* will elapse between the start of applied research and the day when mass production of a new product can begin. At this point the company has invested in seven years of research plus new plant and expensive market research and sales promotion before the product has yielded and return in significant sales dollars. Clearly, this is no field for those with inadequate capital or haphazard planning.

### **Variable time**

The time span from the start of applied research and the beginning of mass production varies, of course, from industry to industry. Military products may be developed in fewer than five years because the government will underwrite the cost of “crash” programs in matters of national security. Similarly, new capital goods are often developed in relatively short periods, because the demand for labor-saving machinery is sufficient to support the cost of concentrated research and development programs.

On the other hand, the development of a really new product in

the consumer durables field may well take 10 years or more. Plant facilities to make such products may cost more than 100 million dollars per company. Firms are slow to risk such an investment on a new item. Automatic transmissions for cars, color TV and built-in kitchen appliances are all developments based on prewar research. Mass production of the turbine auto, wall-size TV and the all-plastic house are still a decade away.

This is because it takes many years to achieve the standardization, mass production techniques and lower costs that permit new consumer durables to “catch on.” Consumer incomes grow only slowly, and most people will not give up enough of tried and true things to pay for the “wonder” products, until their price comes down. Companies making consumer durables must count on a long introduction period and get most of their income from older, standard items.

The rate of return on research is directly related to the time cycle. The returns are usually high where research leads quickly to production, especially in those military projects where the government will underwrite the cost of tooling up. Even when it does not require masses of the new weapons, it will pay the extra costs of design and engineering. Sales

will be large, even though the profit per dollar of sales is low. And with a government contract in hand, the defense company finds it easy to borrow money.

### Long-range investment

At the other extreme are the consumer durables with a long development cycle and a decade or more of patient work on markets before the new product begins to pay. RCA did its original research on television in the 1930s and even color TV has been on the market for several years now. But the payoff on this new kind of television is still far in the future because there is not a mass market today for color sets. Ford Motor Co. has introduced the Edsel, a completely new automobile, in 1957—but without much chance for a substantial profit in the years just ahead.

In these cases, the companies must regard their expenditure on product development as essentially a long-range investment. It will assure them of an adequate share in the mass markets of the 1960s. And since profits are relatively high on consumer durables, *once mass production is achieved*, the investment will eventually pay. In 10 years time, a dollar of research may be repaid tenfold in sales. But this is a long wait. Meanwhile, today's standard products must yield the profits that will support

the development of new durable goods over a long trial period.

In between these two extremes is a group of industries where the time development factor is greater than the crash program's five years and less than the decade for consumer durables. Here, research is still fairly close to the old idea of invention, in the sense of discovering something completely new. This group includes the chemical, electrical and industrial machinery industries. It accounts for a very large share of all new patents granted, and research expenditures for some companies exceed their expenditures on new plant and equipment. The result—when research is successful—is exclusive products, on which profit margins are high. Examples are the new synthetic diamonds, the new plastics derived from cheap natural gas, machine tools that double previous cutting speeds, etc.

For these industries, the question of whether research pays is almost an absurd one. Some chemical firms have stated that every dollar of research returns seven dollars in sales—and over a dollar of profits—within five years time. Successful research pays well enough to compensate these risks and keep total profits moving upward.

It is difficult to say how the rates of return average out for the manufacturing industry as a

whole. However, the McGraw-Hill Department of Economics, which makes regular surveys of research plans, has estimated that sales of new products (defined as products not made in 1956) will account for 13 per cent of total manufacturers' sales in 1960. This would mean over 50 billion dollars of additional demand for manufacturing output and thus would add more than 10 per cent to over-all economic activity as measured by the gross national product. If profits average five per cent of sales, they will be 2.5 billion dollars—a substantial return on the seven billion dollars invested in research in 1957. By the early 1960s, this entire investment may well be repaid.

As indicated above, one condition of profitable research is the ability to wait out a long period of development and market testing.

A big company, with ample capital and with large resources for marketing and technical research, is clearly better able to do this than a small firm.

However, there are exceptions. One is in defense work, where the government bears most of the costs of product development and testing. For these reasons, small companies play an active part in the

research of the aircraft, electronics and instrument industries.

Another way that small companies benefit from the research boom is by obtaining subcontracts that develop when a giant company starts producing one of its new products. Many of the small parts on new automobiles—and most of the special tools to make them—were developed by relatively small firms. Du Pont has pointed out that most of the final products fabricated from its new plastics Mylar and Teflon are the work of small companies.

Here the small firm has an advantage because it is closer to the final consumer and quicker to anticipate his special needs. For example, one company devised a way to use Mylar for weather balloons, although it could never have financed the development of the plastic itself. Other small companies took the lead in designing special packages made of plastic for store displays.

The stimulus that research gives to business activity will help small firms as well as large. Indeed the profitable pursuit of research activities may prove the greatest opportunity of this business generation. ■

### *Without Congressional Funds*

"GENIUSES ARE sensitive plants. They have to be treated tenderly—needing freedom from harassing cares. Above all, they need the books and instruments. Where quality is the thing sought after, the thing of supreme quality is cheap, whatever the price . . ."—*William James*



# *Union-made* ~~Union~~ Labor Goes into Business ~~Shop~~ *Union-owned*

Unions compete with capitalists in the world of profit and loss

by Al Toffler

UNIONS not only deal with business; sometimes, quite literally, they are business. Leather-lunged organizers who used to frequent union headquarters are increasingly being replaced by flannel-clad college-bred young executives. The headquarters have changed, too, as a glimpse at the shiny facades of union-owned office buildings in Washington will attest while inside you can find smooth-running bureaucracies.

One aspect of the transformation is the contradiction between labor as the shield of the workingman, and labor as employer.

Today, unions employ between 50,000 and 60,000 men and women who do everything from organizing sawmills to producing television shows. A sampling reveals that union payrolls include doctors, nurses, accountants, editors, photographers, radio announcers, artists, advertising

salesmen, bookkeepers, industrial engineers, hygienists, nutritionists, printers, lawyers, lobbyists and charwomen. Business management experts will doubtless appear soon.

The growth and elaboration of staff is one of the many symptoms of labor's arrival at organizational maturity. The labor leader of today is presented with problems that would have set the picket-line veteran of a generation ago gasping. Part of the gasp might well have been from indignation.

Thus, when the organizers on the payroll of the AFL-CIO recently requested recognition for a union of their own, blunt George Meany told them "No!" in memorable terms. Meany was an employer, and surrounded on the organization's executive council by 28 representatives of autonomous affiliates—each of them unques-

tionably an employer also. These men opposed recognition for a simple reason: they feared the spread of unions among their own employees.

Not only is the "new labor movement" an employer, but it also enjoys a net worth of more than one billion dollars and a gross annual income—from dues and other sources—of between 400 million and 500 million dollars. It has direct influence over the disposition of another five billions or more in welfare and pension funds.

### **Institutionalized labor**

Moreover, like anybody with that much money, labor is compelled to find uses for it. In the process of operating business enterprises, labor itself is being changed, the trend toward its institutionalization intensified.

Six years ago, the fertile brain of John L. Lewis tackled the problem of high shipping rates which made it uneconomical to sell American coal to Europe. He decided that the shippers were taking advantage of a shortage of tonnage to keep their rates up. The answer was logical: add ships. And, if the shippers could not or would not do it, John L. could and would.

Lewis sold this idea to George Love, then president of the nation's biggest coal company, the Pittsburgh Consolidation Coal Co.,

and to Raymond Salvati, boss of the big Island Creek Coal Co. Together, the three met with "GE Charlie" Wilson, then head of the Office of Defense Mobilization. In effect they told Wilson: "You let us have some of the government's mothballed Liberty ships. We'll haul coal at a lower rate, thus helping our allies. We'll have more business. The United Mine Workers will have more jobs."

Wilson liked the idea. But the State Department was hesitant. Wilson resigned, the 1952 elections came, and a new Administration was installed. Lewis tried again and got the rail industry to go along. This time the decision was made without waiting for government approval. A 50-million-dollar corporation was chartered and five million dollars was invested, with Lewis' union providing one-third.

Today, American Coal Shipping not only has six ships hauling coal across the Atlantic and one hauling grain, but it has purchased control of the A. H. Bull Steamship Co., which has 16 ships in the Caribbean trade. Few new companies have become so completely ensnared in a complex labor quarrel. This put board member Lewis squarely on all sides of the bargaining table.

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Al Toffler, Washington newsman and free-lance writer, was formerly editor of *Labor's Daily*.

Two seamen's unions, the National Maritime Union and the Seafarers' International Union, have been quarreling ever since. The shipping company signed an agreement pledging to hire all its seamen from NMU hiring halls. Paul Hall, head of SIU, charged this was a "closed shop" arrangement, illegal under the Taft-Hartley Act. The result was a court order which has brought about one of the most ludicrous situations in recent labor relations history.

ACS was enjoined from signing a contract with either union until an election is held for representation rights. In the meantime, it is forced to hire its seamen according to their length of service on American flagships and in disregard of their union affiliation. The result is that ACS crews have the highest average age of any crews in the world. ACS sailors now average in their fifties, and some are in their seventies!

### **Fascinating venture**

In the case of ACS, a union joined with industry to manage a business for mutual advantage. Sometimes, the purpose of labor entry into the field of business enterprise is precisely the opposite.

One of the most fascinating union ventures into the business

world was undertaken by the International Typographical Union, the 100,000-member printers union. It is sometimes better to set up a newspaper to employ striking printers than it is to pay them strike benefits. The paper could then be used to take advertising away from the struck publisher while doing a public relations job for the strikers. Ultimately, the paper could be sold to a commercial publisher who would promise to operate a union shop.

This idea resulted in the establishment of commercial-type daily papers, complete with advertising departments and society editors, in Meriden, Conn.; Texarkana, Tex.; Huntington, Beckley and Charleston, W. Va.; Jamestown, N. Y.; Las Vegas, Nev.; Colorado Springs, Colo.; Oklahoma City, Okla.; Waukegan, Ill.; Hamilton, Ontario and elsewhere. At one time, Unitypo operated 11 dailies, ran a well-staffed news bureau in Washington and employed scores of professional newsmen as well as its own striking printer-members. This program has gradually withered in the last three years. Nearly all of the papers have shut down, although the ITU maintains complete, ready-for-action printing plants in various cities.

Failure of the program is traceable to several causes. Even union

members are loath to quit subscribing to a struck newspaper as long as it carries their favorite comics and sports. Secondly, struck publishers often were in a position to influence local businessmen against advertising in the new labor-oriented dailies. Internal politics within ITU also hampered the program, and members recently refused to vote the necessary assessments. One of the biggest weaknesses of the program was the lack of executive talent. When Larry Taylor, head of Unitypo, died, it was impossible to find a capable replacement.

Despite its seeming failure, ITU leaders believe that the business program served as a powerful deterrent against potentially beligerent publishers. It also created new newspapers which are now being published in Trenton, Las Vegas and Jamestown. Furthermore, ITU began to publish the labor movement's only daily paper, *Labor's Daily*. This authoritative publication is still alive after five years, although it perennially faces financial extinction.

ITU has lost a lot of money in the publishing business, but at least one other union, the American Newspaper Guild, has made money at it. When Guildsmen were locked out of the three big dailies in Detroit during a stereotypers strike two years ago, the Detroit *Reporter* was created.

Only the shortage of newsprint at the time dimmed the success of this strike paper. Within a few days, its circulation had soared to more than 100,000, and advertisers, caught with big inventories as Christmas approached, flocked to buy space in the paper. When the strike ended and the *Reporter* closed its books, the Guild had made a profit which it used to pay strike benefits.

### **Complex relationship**

One aspect of the complex relationships engineered by union business operations is most clearly illuminated by the decision of the NLRB. Local 678 of the now defunct United Optical and Instrument Workers, CIO, had gone into the wholesale optical business in St. Louis to provide jobs for its members. Bausch and Lomb refused to negotiate, contending that Local 678 was more than a union, that it was, in effect, a competitor. The NLRB agreed. It found that, "the union, by becoming the respondent's business rival, has created a situation which would drastically change the climate at the bargaining table. . . The union, by virtue of its double capacity, has made fair dealing with the respondent inherently impossible."

The International Brotherhood of Electrical Workers built and operated a 556-unit luxury apart-



ment house on fashionable Massachusetts Avenue in Washington. The object was simple: profit. Union members did not earn enough in wages to rent apartments at 1500 Massachusetts Avenue. But the profits that flowed into union coffers could provide more in the way of union service to them. When Scott Milne, former IBEW president and the architect of its investment policy, died in 1955, the building was sold, and a handsome profit was realized.

In Cleveland, the Brotherhood of Locomotive Engineers owns two large office buildings and an apartment hotel. The International Brotherhood of Carpenters and Joiners operates 1,000 acres of citrus fruit producing land at Lakeland, Fla., the proceeds of which largely sustain the union's old-age home there.

Given continued economic expansion and concomitant inflation, it is likely that unions will press forward with more aggressive and imaginative investment programs. This will undoubtedly lead to additional, though probably limited, ventures into the field of enter-

prise management. However, no over-all philosophical approach has been formulated. Not long ago, union pension experts devoted hours of discussion to the whole subject. Should union money be used only to make profits which can be used to provide better services to union members? Or should it be used to provide socially useful projects, like low-cost housing, that are of benefit to nonmembers as well? To what extent must assets be kept relatively liquid?

There is little agreement. But such questions illustrate the nature of the changes occurring in labor. The presence of great quantities of money, the need for investment policy, the operation of business enterprises—all these modify the structure and organization of unions. They demand the employment of talents that found no place in the poverty-ridden unions of the past. They also widen the gap that already exists between the outlook and responsibilities of union leadership and those of the rank and file. These are elements that are reshaping American labor in fundamental, yet little understood, ways. ■

### ***Answers to Challenge Quiz***

*(See page 79)*

- |                                  |                                   |
|----------------------------------|-----------------------------------|
| (1) False ( <i>see page 13</i> ) | (7) True ( <i>see page 17</i> )   |
| (2) False ( <i>see page 58</i> ) | (8) False ( <i>see page 42</i> )  |
| (3) True ( <i>see page 72</i> )  | (9) True ( <i>see page 8</i> )    |
| (4) False ( <i>see page 34</i> ) | (10) True ( <i>see page 29</i> )  |
| (5) True ( <i>see page 63</i> )  | (11) True ( <i>see page 47</i> )  |
| (6) False ( <i>see page 22</i> ) | (12) False ( <i>see page 67</i> ) |

## Everyday Economics

**A**RE YOU one of those homeowners who always has his thumb in the dike because he has neglected to make rudimentary repairs? Here's a check list for bolstering the dike. Snow, ice, frost, dew, vapor, even plain water, can cause costly damage to your home. There are four methods of control: elimination, isolation, ventilation or dehumidification. On the *outside*: replace damaged or missing roofing shingles. Apply paint or asphalt coating to damaged rolled metal roofing. Repair or replace damaged flashing, gutters and downspouts. Check that windows and window panes are tight, and repaint worn frames. Stucco should be checked for cracks, and discolored stucco should be painted. Wood sidewalls should be checked for damp wood at ground level and around door and window openings. Look for rotted boards, rusted nail heads, blistered paint. On the *inside*: check bathroom for steam condensation. If ventilation is inadequate, put in a small win-

dow- or wall-exhaust fan. For excess moisture produced by cooking and washing, vent to the outdoors or install window or wall fan. Discontinue use of radiator humidifiers in rooms when excessive moisture appears.

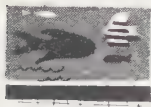
### A chance to know



FOR THOSE who have a tidy sum put away for investment, it might be a good idea to investigate the many "investment clubs" that have come into existence in recent years. Information about these groups can be had by writing to the National Association of Investment Clubs, National Bank Building, Detroit, Mich. Most club members look upon their organization as a source of profit, but they also emphasize its value as a source of information in financial matters through a pooling of investment knowledge. Useful topics such as real estate opportunities and over-all industrial trends are

discussed at meetings and often prove helpful to the individual in his personal investment activities. In many cases, these clubs set aside a special fund to be used for the purpose of experimental investment on securities which would perhaps be too risky for the individual buyer. If the club makes a good investment decision, many of its members follow it up on their own.

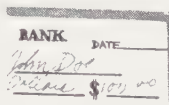
### Aquatic welfare



IF YOUR hobby is a household aquarium, a few suggestions concerning the care of your pets might be welcomed. When introducing new water into the tank, allow it to stand a week in sunlight if taken from a tap, two weeks if taken from a brook or lake, in order to reduce the bacteria count. Remember that fish thrive best under antiseptic conditions. It has been proven that they can be raised to a much greater size and weight if a continuous application of antibiotics is made from egg stage to maturity. When disease symptoms, such as apathetic and restless swimming, torn fins and fading colors, skin blemishes of black, brown, white and yellow and the secretion of slime appear, it is best to remove the ailing fish from the tank immediately for separate treatment in a "hospital" tank.

Above all, avoid these pitfalls—bruising, chilling, overfeeding and a poorly balanced diet.

### Please include



FAILURE TO include the date on a check does not invalidate it, according to bank authorities. However, to do just such a thing is not good practice. Most banks are reluctant to cash "stale" checks—those more than 60 days old. In many cases, undated checks run the risk of being considered in that category.

### Tourist tips



SOMETHING of interest for people who intend to take trips overseas in the coming months: the most opportune time to purchase foreign currency, if you're planning to change your dollars before going abroad, is in January and February. A reduced demand and other factors combine to create an extremely favorable "spread" between the free-market rate you get in the U.S. at this time and the official rate you'll have to pay in the foreign country at a later date. Spokesmen for firms specializing in foreign exchange believe that you can obtain as much as 10 per cent more on your purchase now than at summer's height.—L.B.

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# Economics in Action

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**but fear**

The business community has become a group of amateur psychologists, all intently engaged in psycho-analyzing each other. Business is good in the absolute sense, but relativity adds a disturbing dimension, and businessmen are concerned about the leveling of the pitch of ascent. The result has been that executives have begun to discount expectations by the percentage of fear they find in the next fellow.

**fact and  
fulcrum**

Expectations are important in business planning (see *The Economics of Chance*, page 17) and are translated into reality in terms of reduced inventories and less-ambitious planning. The balance of fact and fear is delicate and can be strongly influenced by comparatively minor elements. Thus, while government spending is a major factor, changes in it will be of comparatively slight magnitude. Nevertheless, they will exert strong leverage. An increase of three billion dollars in federal spending over 1957's 72 billion dollars is easily possible. The money will take time before it has an effect on the economy, but again expectations will enter into play and help combat present fears.

**domestic  
agitators**

Certain factors are normally in violent movement and can lead to greater emphasis in mind than matter. Machine tools and steel were sharply off their former peaks, with the steel industry operating at 80 per cent of capacity. But such industries always react extravagantly to slight fluctuations at the sales point of the finished product. This is because orders for basic production facilities, which will be turning out products for some time in the future, can be reduced without affecting present sales.



**personal  
item**

Personal income was slipping in the last months of the year, but 1957 will total perhaps 10 billion dollars higher than the 327 billion dollars of 1956. Consumer expenditures have been a steadying force in the economy, and they have been maintaining stability despite some loss in momentum.

**farm  
buoyancy**

Farm income, which had been falling steadily until 1956, has held remarkably firm. Net farm income was at an adjusted annual rate of 11.8 billion dollars in the third quarter of 1957, 200 million dollars above the net of 1956. Indeed, it has been rising throughout the first three quarters of 1957. The value of farm real estate, moreover, continues to rise substantially. It was up eight per cent from the same time a year ago and 20 per cent higher than it was four years ago.

**the  
backward  
look**

Automobile sales lost the acceleration that promised well for the 1957 models. Many Edsels were remaining unsold, and the industry's 6.3 per cent drop in sales during a 10-day period in November was the worst decline in the new-model season since 1953. Manufacturers are hastily revising sales estimates for 1958 but hope that the consistent strength of auto-buying in 1957 means that the buyers are still interested.

**narrow  
door**

Some less-regarded factors that added to the boom elements are losing their upward thrust. Thus, our exports to the Far East had a lesser rise in 1957 and threaten to drop off in 1958. In this case, we shall suffer from our inability to reduce the world's dollar shortage. Our total exports to Japan, Formosa, Southeast Asia and the Indian subcontinent were about three billion dollars in 1957, compared with 2.3 billions in 1956 and 1.3 billions in 1946. But we were importing only 1.7 billion dollars' worth of products from those countries in 1956 and again in 1957. The result has been dollar shortages and chronic inflation among

our Far East customers. They would like to buy more, but that potentiality is beyond their control.

**high-grade  
assay**

An important element in business fears, hopes and expectations is the psychology of profits. It is possible that decisions made on the basis of profit magnitudes have failed to take account of general economic as well as business structural changes. Thus, businessmen have been talking about a profit squeeze when profits were at record levels. They were perhaps looking too hard at profit percentages without giving proper emphasis to the fact that many of these profits are disguised as internal company investments. Moreover, old profit concepts were based on economic conditions that admitted more violent fluctuations than we expect in the saner business conditions today. If the 1953-54 business decline achieved the name of gold-plated recession, we are perhaps now resting on what may be termed the platinum-lined plateau.

\* \* \*

**trouble  
everywhere**

WASHINGTON—These are, indeed, trying times. While the public tries to conduct business-as-usual, officials here act more and more like we are in a state of emergency. The domestic economy has not affected too many people as yet, but there are enough families who had a poor Christmas to deepen the cares of the Administration. What bothers official Washington most is that Americans seem to be losing confidence in themselves. Everything is going wrong, and old remedies don't work as readily as they used to. And this is scarcely the time to face up to any prolonged period of a "rolling readjustment," sometimes called a recession. The new year has started off with a giant backfire. In spite of all the transcontinental air records that the Air Force has been piling up for this country, political leaders cannot forget that to many people at home and abroad America seems to be failing herself and losing prestige in the process. Through it all, the people have adopted the pose of helpless apathy, and this frustrates official Washington. The

necessary hard measures will be difficult to sell to the public.

**too many  
fizzles**

The NATO disappointment following the Vanguard fizzle, has left a chill in Washington which may well remain through the entire session of the 85th Congress. Only the President's prestige kept the Paris meeting from failing completely. No effective change in NATO's reluctance to accept our defense plans is possible until the U.S. can demonstrate its equality with Russia in the field of rockets. It is as simple as that. And the longer it takes to launch a satellite, the harder it will be to negotiate with Russia.

**Russia gets  
a free ride**

Russia is also reaping the benefit of the stalemate over Algeria and of the Indonesian action against the Dutch. Neither NATO nor the UN can resolve these difficulties without hurting someone, and American policy is caught between ideals and reality. Both Africa and Asia hang in the balance, and by an accident of history, it so happens that Russia does not have to take any positive action to draw a winning hand.

**paying  
through  
the nose**

Added salt to the wound came from Saudi Arabia, where in spite of denials, some new thinking about the terms of oil concession is progressing. The new contract signed with the Japanese sooner or later is going to affect the Arabian American Oil Company's arrangements with the Saudi government. In fact, it is probable that the only way we can save Jordan from another Soviet-inspired Syrian outburst is to neutralize Nasser, by granting him a loan, and to benefit from the good offices of King Saud, by agreeing to increase his income from the oil concessions.

**year of  
decision**

This is not a pretty picture of America's position in world affairs. A massive reappraisal of American goals and ideals is now in process. The Administration and the Congress will need an awakened public to make 1958 the year the U.S. will either fish or cut bait.■

## *Insuring Our*

# **FOREIGN** *Investments*

A little-known program protects American investments outside the U.S. against such risks as war and expropriation

by Emile Benoit

**O**NE OF THE most imaginative of our government ventures is an insurance operation in foreign investment. No longer a minor experiment, the Investment Guarantees Program has been running for nearly a decade and has already insured 180 million dollars of American overseas investments in 18 countries. Another 19 countries have agreements under the program, but so far, there have been no actual investments. Pending applications which will involve a half-billion dollars indicate how big the government's insurance business can become.

Under the program, the U. S. protects the foreign investor against certain kinds of losses in return for a set premium. The program is based on the insurance principal of pooling the risks among many premium-holders. It cannot, however, be tied to strict actuarial principles be-

cause the risks refuse to obey sane calculations. No one can guess what a South American military junta will do—and it can do distressing things to sound investments.

A flat premium of 0.5 per cent is charged for each of three types of guarantees. The convertibility insurance promises the American investor that he will be able to convert the foreign currency earnings of his investments into dollars and that he will also be able to repatriate his capital. The expropriation insurance compensates the investor in case his property is nationalized without adequate compensation by a foreign government. The third type of guarantee provides insurance against losses arising from the destruction of foreign facilities in war—excluding, however, riots or civil war. Included in the program only in 1956, war risk guar-



antees have not yet gotten through the administrative machine to the point of issuance.

The importance of the program, which is administered by the International Cooperation Administration, is shown by the list of blue-ribbon firms that have taken insurance under it. They include Westinghouse, Ford, Standard Oil of New Jersey, Firestone, General Mills, Bank of America, Mobile Overseas Oil, Koppers, Johns-Manville, Otis Elevator, Caltex, Dow Chemical, Standard Brands, B. F. Goodrich and Kraft Foods.

But guarantees are made only if the country where the investment is made has approved the specific investment and has entered into a general agreement with the U. S. government. The agreement empowers the U. S. to take over the foreign currency or claims of the private investor when the guarantee claims are invoked.

Guarantees are carefully limited. Only new investments can be insured. The convertibility guarantee does not protect the insurer in case of devaluation; he is only promised convertibility at the newer and disadvantageous exchange rate.

Foreign governments have been

very cautious in negotiating such agreements. Thus, India accepted the program only recently after brooding about it for two and a half years. The United Kingdom has, indeed, accepted convertibility guarantee but has refused to participate in the expropriation guarantee program. Burma, Ceylon, Indonesia and several other Asian countries are still outside the program. These countries have been reluctant to agree that the U. S. government should take over blocked currencies or claims to nationalized properties and have hesitated to commit themselves to settle such disputes by arbitration. It is felt that there might be an impairment of national sovereignty in such agreements.

The program has also been delayed by technical difficulties, such as the meticulous administrative action required by the enabling legislation and the reluctance of some American firms to participate in the program. The multiple exchange rates in many Latin American countries have made it impossible, until a recent change in regulations, to make use of the convertibility guarantees. Applications for guarantees are so carefully investigated to prevent fraud that the half-billion-dollar backlog of 200 pending applications is caught in a slow-motion bureaucratic creep. Indeed, the cost of administering the program

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absorbs a quarter of the premiums.

Some of the largest international firms have ignored the program because they felt they were big and diversified enough to bear their own risks. Many of the major oil companies have joint-venture agreements with foreign firms and could find alternative uses for blocked currency.

### **Important questions**

But, in spite of these difficulties, the inpouring of new applications indicates that the program is vigorously under way. Many of the reluctant nations are on the point of accepting it, and the U. S. government, impressed by its success, seems willing to increase the ICA staff to meet the greater demands.

The success of the program raises a number of important questions. "Will our government's participation," one critic has asked, "give other countries the idea that they can manhandle American investors and let the American government pay the medical bill?" Up to now this has not happened. So far, the U. S. has not paid out one cent on investor claims because foreign governments have met their minimum obligations and no guarantees have been involved.

But why should American taxpayers act as reinsurers of incalculable risks in the first place?

The answer is that the world is in a long-term struggle between free and totalitarian forms of society. One of our most effective weapons in the world conflict is private foreign investment that will help raise living standards. We cannot wait for the slow regrowth of investor confidence by methods that seemed natural in the past.

Without such security, many more investors will prefer to keep their money safe at home or in Canada. The only other alternative is to seek exceptionally high profits, which severely restricts investment possibilities and denies to the undeveloped country just the type of foreign enterprise that will do it the most good.

The basic obstacle to foreign investment is the lack of profitable opportunities. Underdeveloped nations are naive on this point and expect the investor to risk his capital to earn seven to 10 per cent when he could get the same returns in his homeland. Moreover, the host country must have the necessary substructure in roads, harbors, schools, transportation, skilled labor supply and in development of raw material industries. Some countries compound the difficulties by monopolizing profitable fields for government enterprises.

The Investment Guarantees

Program can reduce some of the problems to manageable size by eliminating certain kinds of essentially incalculable risks. This is no substitute, of course, for a general improvement in the "climate" for foreign investment which only the host government can bring about by its own action.

But the program could stand some improvement. The one-half-of-one-per-cent premium means a substantial reduction of net profits, and companies are very selective about the guarantees they are willing to buy. A given firm will buy a convertibility guarantee for one project, an expropriation guarantee for another and will dispense with guarantees entirely for a third, depending on a careful appraisal of the specific risks.

### **Applications would increase**

A reduction of the premiums would increase the applications by permitting the firms to buy them without such careful study. The heavy administrative costs could be reduced by eliminating unnecessary investigations. Program officials, however, expect to reduce expenses so that administrative costs are only 10 per cent of premiums when guarantees reach the level of 300 million dollars.

The investigations themselves could be restricted by attaching heavy penalties to fraudulent ap-

plications, confining investigations to sample cases and waiting until a claim is made before doing the double checking. The present delay of a full year for processing applications is surely not a business-like way of helping business. The companies themselves are partly at fault in this because of their reluctance to answer all the questions required by law to put the application into final form.

Perhaps our government is making too big a profit on the program. Its two million dollars of collected premiums represent a better bookkeeping than diplomatic gain. This governmental profit-making is continuing while the government, with the other hand, is giving aid to foreign governments for the same objectives that private enterprise could attain.

All signs point to a period of expansion for the guarantees program. The recent slowdown in American economic growth has revived the dollar gap and postponed European attempts to restore full convertibility. Thus, convertibility guarantees will continue in demand. The new war risk guarantees have attracted considerable business and investor support.

It looks as though there will be plenty of new foreign investments to guarantee. American overseas investments rose by a record four billion dollars in 1956, and they are still rising. On the other hand,

domestic investment by industry is sagging this year. A survey of business plans for capital spending, recently released by the McGraw-Hill Department of Economics, forecast a seven per cent general decline for this year and a 16 per cent decline in manufacturing investment. The slowing of demand has reduced production well below capacity.

### **Buoyant demand**

The effect will be to release large amount of capital for investment abroad where demand has been more buoyant and excess capacity is not an immediate prospect. Europe seems able to absorb large amounts of capital because of the great structural changes impending as a result of the common market. Many European industries will require substantial re-equipping to meet the shock of the new competition as their protective tariffs are liquidated. They must also expand to exploit the great possibilities of a market of 170 million consumers. Joint venture arrangements with American investors will provide one of the best sources of necessary capital.

The major contribution of the Investment Guarantees Program is that it removes some of the essentially incalculable risks. The private investor can thus appraise foreign projects in terms more nearly comparable with those he

would apply to a domestic investment. Thus, more projects can be studied and will be able to pass the test. It gives the investor with one operation some of the protection that is available to the great international firms with diversified investments.

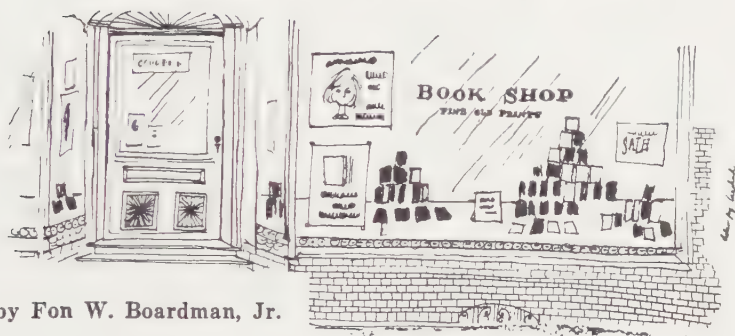
### **Enlivening infusion**

The program is the most practical way of managing risks to the best advantage of all concerned. The foreign country gets an enlivening infusion of needed capital. The American investor gets a reasonable assurance that non-business factors will not ruin his venture. The U. S. government promises to pay his claim if the guarantee is invoked, but it then takes over the blocked currency and property claims. It is in a much stronger position than the private investor and has a good chance to recover the loss, particularly because it is supported by a prior agreement with the host government about how such matters will be settled.

With a continuing expansion of American overseas investment, with a growing awareness of the value of investment guarantees among American businessmen and an improved receptivity by foreign governments, the way now seems clear for rapid progress in the Investment Guarantees Program. ■



# Cash and Culture in Books



by Fon W. Boardman, Jr.

Publishers seek the golden mean in the book business

**I**T IS TRADITIONAL that a book publisher considers himself a full-fledged member of the cultural world when he is talking to authors, critics and other impractical people. But when he is talking to his banker he feels that Adam Smith is in attendance and he likes to act the hard-boiled businessman. He is, therefore, often accused of wanting the best of both worlds.

Just how important is book publishing as a cultural enterprise? It could be said that over the centuries, publishing, by disseminating the written word, has preserved, distributed and advanced just about everything man has achieved in his greatest fields: literature, science, philosophy, religion. Of course, this does not

of itself prove that publishing today is still important as a cultural agent.

Americans have long been newspaper and magazine readers rather than book readers, and now we are also addicted to radio and television. Various statistics can be quoted to show that this adds up to a present and continuing trend away from books and the culture they represent.

A recent Gallup survey reported that only 17 per cent of the people were currently reading a book, compared with 21 per cent in 1949. Surveys also show a smaller proportion of the population reading books in the United States than in England. A Department of Commerce study indicates that between 1940 and 1955 there was

a decline of three per cent in the portion of the family recreational budget that was spent for books and maps. This same survey says that in 1956, we spent 2,442,000,000 dollars for radio and television sets and musical instruments, plus 756 million dollars for repairing and servicing the radio and TV sets. Meanwhile, we were spending only 592 million dollars on recreational books and maps, but at least this was more than the 414 million dollars bet—legally, presumably—on dogs and horses.

If such figures seem to show that culture, when equated with books, is losing out, what conclusions, if any, can we draw from the contents of the books themselves? Many people—or at least a number of very vocal people—obviously feel that books deserve to come to a bad end because they are corrupting our youth. But there have been such dire predictions in all ages and virtue remains resilient.

### Monument to culture?

It is true there is considerable sex in *Peyton Place* and that this novel was a spectacular 1957 best seller. But not even those who defend the right to publish such a thing defend it as literature or culture. Anyway, why pick on 1957's books and authors? The fiction best seller of 50 years ago

was Elinor Glynn's *Three Weeks*. And 25 years ago, in 1932, Erskine Caldwell's *Tobacco Road* was a top favorite. That year, too, many people bought *Forgive Us Our Trespasses* by Lloyd C. Douglas. This, and some of its predecessors of the sweetness-and-light school, may not outrage those who wish sex did not exist, but there is a rather impressive body of opinion that holds such books are not exactly great literature.

Putting a batch of words into book form does not make the whole thing a monument to culture, nor is there any reason why every book should make a contribution to civilization—any more than every sermon or every Rotary Club luncheon speech should. The fact is that books both lead and reflect the taste and the culture of the time and the place. They are a part of society, the same as politics, religion and business. As a cultural agent a publisher can sometimes consciously lead the way, for better or for worse. But at other times he is a businessman who, like the makers of autos, soaps and movies, tries to give the public what it wants.

If, then, book publishing is not a 100 per cent cultural activity, what is it like as a busi-

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ness? It is insignificant compared with many other American businesses. Book publishing uses less than one per cent of the paper consumed in the United States. Its sales in 1956 were about 750 million dollars, and it is edging up to the billion-dollar mark. But the advertising business has passed 10 billion dollars.

Furthermore, the publishing sales dollars are spread around among a great many publishers who issue more than 12,000 new books and new editions each year. About 300 different publishers bring out about 90 per cent of these books, and about two dozen who issue 100 or more books a year account for a third of the total.

General Motors has tough competition, and it has a varied line of products for its industry. But how would its management feel if it were one of 853 different competitors who, among them, manufactured 91,000 different products that could be classified under 22,000 different headings? This is not imaginary, for a new subject guide to *Books in Print* lists 91,000 book titles under 22,000 subjects as issued by 853 publishers.

Even though sales volume is relatively small, are costs and profits favorable? Publishers say no. In the good old days, about 15 years ago or earlier, a publisher

could print 2,000 copies of a book and, if he could sell them all, he could break even. Now, the break-even point is anywhere from 5,000 to 10,000 copies.

Paper and printing costs have gone up. So have salaries and taxes. Like every other business, publishing has raised its prices, but it did not start as soon nor go as far as some. Figures compiled by *Publishers Weekly* show that the average price of a novel went up from \$2.58 in 1941 to \$3.26 in 1952 and to \$3.53 in 1955.

The American Book Publishers Council, using combined figures of 29 publishers of general adult books, found that these concerns in 1955 had a net loss on their regular operations of 4.4 per cent. How did they stay in business? Income from the sale of such things as book club and reprint rights enabled them to end up, after taxes, with a profit of 3.1 per cent—no great fortune in these days of depreciation allowances for oilmen.

The situation is probably not as bad as all these statistics make it sound. The Council's figures for 1956 show dollar sales of general adult books up 17 per cent from 1952, and juvenile books up 38 per cent. This is not quite as encouraging as it seems, either, because the percentage of increase in the number of copies sold is smaller than the dollar increase.

Paperbound pocket books show a bright spot in the picture. Drug-stores alone sold 34 million dollars worth of them in 1956. The covers are getting a bit less lurid, and there has been a definite swing from run-of-the-mill fiction to nonfiction and even reference books. At the same time, the so-called "quality" paperbacks have invaded the market. They tend much more toward the serious side, are a bit larger in size, and range in price from about 95 cents up to \$2.95. In dollar sales they increased 118 per cent between 1954 and 1956, and 84 per cent in number of copies sold. In terms of books as culture, the advent of this kind of paperback book is one of the most encouraging events of recent years.

Next on the brighter side is the slaying of the television dragon. As Bennett Cerf has reminded us, all kinds of fads have been hailed gloomily as spelling the doom of book reading: the bicycle, the interurban trolley, the auto, radio and television. The book is still here. For some, television has increased book reading by arousing curiosity about people, places and things.

There are even more positive signs of encouragement for the publisher. One of them is obvious and numerous: people. The young author in his twenties today has a potential audience in the United

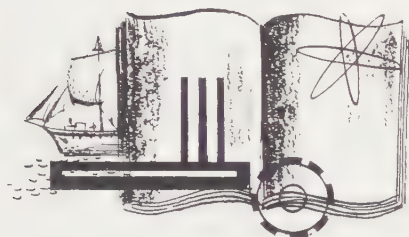
States of some 50 million more people than his predecessor of a generation ago. When the country is producing 2.5 million or more babies a year, the publishers of children's and schoolbooks have every reason for looking forward to bigger and bigger printings.

Schoolbooks have long been a bread and butter item in the publishing world. Now Cinderella is getting ready to go to the ball. The pleasant part of it is that all kinds of books will be the eventual beneficiaries of the education boom, because everything known up to now shows that book reading equates more directly with education than with any other factor.

Book publishers have a reputation for being pessimists, but at the moment they are optimistic enough to admit that maybe it is not such a bad business after all.

"Of making many books there is no end," the Bible says, and the first book in the American colonies was issued in 1640. Thus, publishing is one of our oldest professions. It is unlikely that it will suddenly fold up, or that its managers will suddenly cease to issue the novel, or the book of poems, or the economic tract, or the scientific theory that loses a few hundred dollars but changes the course of literature, or the course of the world. ■





## The Permanent Frontier: No. 4

The Revolutionary era: independence demands reconciliation of "liberty" and order, localism and centralization

THE REVOLT of the American colonials against their English mother country cannot be described simply as a War of Independence. Among other things, the American Revolution sought to realize politically democratic ideals that had been nascent in Europe for many decades. One might also say that it was an aspect of the Commercial Revolution that had been under way in Europe for some 300 years. Finally, the American Revolutionary era might be described as a period of open conflict among the various economic groups within the colonies.

Nor was the so-called War of Independence a "natural" war. The grievances of the colonials were not against Englishmen, but against the English government. The colonial population, comprised mostly of Englishmen or descendants of Englishmen, was sufficiently moved to want to break with King and Parliament and to fight a war, but apparently not enough to desire a forfeiture of their iden-

tity with Anglo-Saxon traditions. Indeed, it was in the very best of these traditions to rebel "'gainst King and Parliament."

The colonists rebelled not because they objected to being the King's subjects, nor because they desired to avoid Parliamentary law, but because they felt they were being denied their natural rights as Englishmen. During the period from 1760 to 1776, Britain's "policy of salutary neglect" of the colonies came to a close. The revitalization of the British mercantile system threatened the economy of the colonies. The imposition of rigid political and economic controls menaced what hitherto had amounted to virtual self-government for all the colonies. The Proclamation of 1763, which forbade land grants and settlements west of the Appalachians, closed the frontier to the landed colonies, as well as to the speculators and the small farmers. More than this, the British were now doubly determined to enforce their Navigation

Acts and to collect colonial revenue. These impositions and restrictions revealed a very sharp conflict between English and colonial economic interest.

## War and independence

Colonial opposition to the new policy of empire naturally progressed from economic protest to constitutional argument. When the colonies, particularly the Northern colonies where domestic manufactures were most advanced, refused to yield to the revenue laws and resorted to nonimportation and nonconsumption practices, the British Parliament yielded. The obnoxious Stamp Act and Townshend Acts, which sought to impose duties on a number of common commodities, were repealed, but under no circumstances could Parliament be expected to yield its "right" to tax. Here was the classic example of the immovable object meeting the irresistible force. The outcome was war and American independence.

The motivating power of the Revolutionary parties in the colonies was provided by four distinct classes. First, and not necessarily in the order of importance, the Southern planters resented domination of their trade by Northern creditors, who, in turn, seemed to be supported by British policy. Additionally, the planters protested against the closure of the

West and the infringement of the sanctity of private property. Second, the Northern merchants were bedeviled by restraints on their commerce and their exclusion from western land speculation. Third, small farmers suffered from the curtailment of trade, which meant lower prices for their produce. These farmers were also closed out of the frontier settlements by the Proclamation of 1763. Fourth, the laborers of the towns and port cities were oppressed by a wealthy class, which was, in turn, generally supported by Parliamentary policy. Angered by political, economic and social discrimination, and believing that British policy was largely responsible, the laboring classes were zealous revolutionists.

To a large extent, the economy of the colonies had been self-sufficient; thus, during the war the colonial population did not suffer undue deprivation. Luxuries, and even extravagance were not uncommon. Once the prewar crises reached temporary equilibrium, inflation became a blessing to many, for it benefited the debtor and threatened his creditors. And many segments of the economy gained great profits, through manipulation and naturally through

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This is the fourth article of a series in CHALLENGE which deals with the history and development of the United States economy.

the demands of war. Chicanery and steadfastness, intrigue and sincerity, self-aggrandizement and humility were all so predominant that George Washington was in one instance brought to decry, "Such a dearth of public spirit and want of virtue, and stockjobbing, a fertility in all the low arts to obtain advantages of one kind or another, I never saw before and pray God I may never be witness to again. . . . Could I have foreseen what I have, and am likely to experience, no consideration upon Earth could have induced me to accept this command."

### **Alliance with France**

The greatest part of arms and munitions to supply the Revolutionary Army was procured from France, and intermittently from privateering ventures and colonial enterprise. Indeed, without the aid of France, it is most likely that we should not have endured long enough to win a war that was in the end won by default of British strategy and unity. John Adams was at first vociferously opposed to any "entangling alliance," but even before the close of 1776, the revolutionary cause had become so desperate that the Congress finally authorized Franklin to conclude an "offensive-defensive alliance," with France.

Hence we see the factors of the American Revolution as "an es-

pect or phase of the Commercial Revolution." Our allies were first of all interested in avenging the disadvantages of British supremacy on the seas.

With the Declaration of Independence, the British mercantile restrictions were no more. The French, the Spanish and the Dutch had always coveted Britain's trade with her colonies, and now that colonial commerce with British ports was illegal, they were eager to fill the gap. And by 1777, despite the British blockade—which was inadequate, and which, if effective, might have determined a British victory—there was in the colonies an adequate supply of necessary European goods, the luxury items as well as the supplies of war. Then, there were the privateers. It is estimated that perhaps 90,000 Americans ventured out in privateering sloops and brigs, rivaling legitimate commerce for the vast and never-calculated profits of seizure, smuggling and blockade running. And, it was due to the continuous and heavy losses of sail and cargo that led English merchants to demand an early end to the war.

With the conclusion of the Treaty of Paris in 1783, there began that notably critical period in the destiny of the new nation. Conscionable power struggled anew with sectional and class prejudices against what would be a republic-

can authority. The problems of postwar adjustment and reorganization have more than often been exaggerated and ridiculed to the point where perspective is lost of their origin, and the faults are blamed entirely and erroneously upon the Articles of Confederation. This was not the case. But again, as before the war, and during the war, the nation of United States was faced with what might even be described as the anticlimactic effects of postwar problems. It is not necessary here to renew the discussion of sectional differences and class grievances, but only to emphasize once again their existence, plus the fact that the war had tempered some of these grievances at the expense of heightening others.

Peace brought deprivation to some Americans. The demand for goods declined. Prices dropped. Debtors once again suffered. British manufactures, and European goods in general, flooded the market. Whatever specie had been precariously collected during the war was now more than ever severely reduced in value. Debtors called for the reduction, and even for the cancellation of debts. Farmers suffered anew from falling prices. The Southerners, on the other hand, benefited from the renewed demand abroad for their produce. Industries that had burgeoned during the war now suf-

fered from high inventories; the demand for war goods had, of course, decreased, and Americans preferred the European goods to the yet inferior domestic articles.

### Active and expanding

Nevertheless, while some segments of the economy suffered from depression, others were active and expanding. Internal improvements—land, canal, turnpike and manufacturing companies—created a demand for capital. Commerce benefited to some extent by direct exports to Europe; some of the British bounties for American goods were continued; the laws prohibiting commerce with the British West Indies were evaded; the French West Indies were opened to American commerce. There was the beginning of the trade with the Far East. There were commercial alliances with Holland, Prussia and Sweden.

But the new American economy and its prospects for expansion and enrichment had still to reckon with the debilitating Articles of Confederation. The new republic was still confronted with the problem of reconciling local sovereignty and central authority in order to promote, and *protect*, the national welfare. As ever, the states were reluctant to establish a source of national revenue. The nation was threatened with



bankruptcy. Foreign loans had yielded 2.3 million dollars. National revenue was at a loss to meet domestic obligations, plus the consequence that the arrears of interest on the foreign debt rose from 3.1 million dollars in 1783 to 11.4 millions by 1789.

There was no recourse but to found a new government. Political confusion and inflamed interstate rivalries—a virtual anarchy of economic and political interests—made a new government essential to whatever hope there was for “perpetual union” and prosperity. Those whose economic interests were threatened by the disunity championed the demands for a new constitution. In one form or another, mob rule threatened to engulf the nation.

Agitation for a stronger and more “respectable union” again fell to four powers: (1) holders of substantial sums of Continental paper money, bonds, and certificates of indebtedness were now willing to cooperate with (2) merchants and developing manufacturers who wanted *protection* against discrimination that favored foreign goods and enterprise; (3) domestic merchants who demanded government machinery to establish a stable currency and unrestricted interstate commerce, were joined by (4) the renewed

interest of the land speculators, who believed that the value of their holdings, which they still claimed, would now be increased.

There were many preliminary meetings designed to discuss amendments to the articles of Confederation before the Constitutional Convention finally convened in Philadelphia in 1787. The Revolutionary radicals were now absent, from choice. The greatest proportion of delegates were investors and speculators in public securities—the land, canal, turnpike and manufacturing companies aforementioned. There were still the conflicting interests. Sectionalism and rival economic interests have ever been characteristic of the American nation, and from one point of view, the nation’s greatest strength, in that they make for a viable balance of power. The predominating aim of the Constitutional Convention was the development of a uniform system of safeguards to both mercantile and agrarian capitalism. This aim in itself was inconsistent, and from this conflict between a mercantilist system modified by protectionist views, and the agrarian, *laissez-faire* philosophy of Jeffersonian aims, there developed the complex of issues that would characterize the real beginnings of the new nation. ■

**NEXT MONTH: Sectionalism and divergent economic aims create political ideologies that make for a two-party system**

The "poor" are still with us, despite long years of prosperity



by David A. Shannon

## *Who Are the American Poor?*

AMERICANS who remember the drab and desperate days of the 1930s can, in today's plush times, look about them and conclude that there is less poverty in the United States than there was 20 years ago. Those a little older, who have vivid memories of the 1920s have the same kind of subjective impression when they compare current prosperity with that of the era Charles Beard called "The Golden Glow." And those who recall the days before World War I are likely to believe, on the basis of their memories and casual observation of the present scene, that the amount of poverty in this century has been steadily decreasing with the one dismal exception of the Great Depression.

Happily, objective measurements of poverty and income dis-

tribution bear out all these haphazard observations. A study of the records of the Bureau of the Census and of the Bureau of Internal Revenue indicate that the American people as a whole are more prosperous than they have ever been and that the desperately poor are fewer than ever before.

However, when we try to be concrete and say precisely how many or what percentage of American families live in poverty, we run immediately into statistical confusion and differences in judgment. *Poverty* is the word that causes the difficulty. Precisely how much income must a family have to live above a "poverty" standard of living? What, exactly, is this minimum standard of living in terms of

diet, housing, clothing, medical care and utilities? Answers to questions such as these vary widely because they involve value judgments, and as we shall see, efforts to utilize a "minimum decent living standard" have been vague and nearly meaningless.

The Bureau of Labor Statistics, for example, has worked out a budget for urban workers that is presumed to provide a "modest but adequate" consumption level for a family of four (father, age 38; mother, age 36; son, age 13; daughter, age 8). This hypothetical family rents a four- or five-room house or apartment, lives by itself, has no other dependents, and owns a car six to nine years old. In actuality, 26 per cent of such hypothetical families have no such car. Indeed, in big cities like New York, Philadelphia and Chicago, 60 per cent of these families are denied this statistical automobile. The family eats meat "several times a week," but the cuts are inexpensive ones except on Sundays and holidays.

The budget is remarkably detailed. Thus, the father gets a haircut every three weeks, and buys five shirts a year, a heavy wool suit every other year, and a light wool suit every third year. The family buys a daily newspaper, 32 popular magazines a

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year, makes three local telephone calls per week, and goes on a short vacation trip to visit friends or relatives every three or four years. In this budget there is no debt and no savings except a small life insurance policy. The Heller Committee of the University of California and the AFL-CIO have also prepared such statistical budgets.

The difficulty with these budgets is that there cannot possibly be wide and consistent agreement as to what is a "poverty" level. There is probably not a single family in the nation that spends its income precisely as indicated, mostly because the people who draw up these budgets have above-average incomes and do not know from first-hand experience how the poor actually spend their money. As Albert Lauterbach recently pointed out in these pages [CHALLENGE, August-September 1957], luxury is a relative matter. What is a luxury in one era becomes almost a necessity in another.

Poverty is equally difficult to classify. In other words, living standards once considered adequate are in another age judged to be below poverty levels. A radio, for example, was once a luxury item; by the 1930s, the federal government considered the expense of owning and maintaining a radio as a legitimate item

in a minimum budget. Today, the same process is developing with television sets.

So relative is the term poverty that Dorothy Brady of the Bureau of Labor Statistics told a Congressional committee in 1950 that there is a tendency to define poverty merely as the standard of living enjoyed—or suffered—by the poorest one-third of the nation. If this is what we mean by poverty, then indeed the poor will always be with us.

### Encouraging results

There is still a method of determining changes in the living standards of the poor, even if we give up as hopeless the effort to establish a minimum living standard enabling us to say with statistical assurance that  $x$  percentage of American families are living in poverty. We can study the incomes of the poorest American families to see if and how they have changed.

The results of such a method are encouraging. The standards of living of the poorest American families have significantly improved in the past 20-odd years, although we have by no means abolished want and privation. In 1935-1936, the average income of the lowest one-fifth of American families and "unrelated individuals," a Census Bureau term meaning people who live alone or

in consumer units composed of people who are not relatives, was only 607 dollars at 1950 prices.

By 1950, the average family income of this same group had risen to 1,080 dollars, a 78 per cent increase. The average income of the next to lowest fifth increased from 1,349 dollars to 2,444 dollars, or 81 per cent. Most of this improvement occurred from 1941 to 1944. The distribution of income in the United States has remained almost unchanged in the postwar period.

Now, let us look at these figures again to see what they mean. Obviously, the poorest one-fifth or two-fifths of the population bettered its condition. Yet, when one considers what 1,080 dollars or 2,444 dollars would buy in 1950, we must conclude that these families were still having trouble making ends meet. The BLS calculated in 1950 that 3,717 dollars were needed to provide the living standard of its hypothetical "modest but adequate" budget. Nevertheless, the change from 1936 to 1950, which we could characterize as one from abject poverty to above the top borderline of want, was a most striking one.

Incidentally, this very commendable increase in the size of incomes of the poorest one- or two-fifths of families was more the result of a tremendous increase



in the nation's total family income than redistribution. To use the old metaphor of the pie, the pie grew enormously, but the way the pie was divided changed relatively little. In 1935-1936, the poorest 20 per cent of American families received only 4.1 per cent of the total family income and the top 20 per cent received 51.7 per cent. In 1950, the percentages had changed to 4.8 and 45.7 respectively. This is probably the greatest change there has been in America since the nation became industrialized.

The South remains the poorest region of the nation and the Middle Atlantic area the richest, while white Americans continue to receive significantly higher incomes than nonwhites. According to the Census Bureau, the average per capita income at 1950 prices in the Middle Atlantic states was 413 dollars in 1939 and 1,424 dollars in 1949, whereas the figures for the South Central states—Kentucky, Tennessee, Alabama and Mississippi—were 150 dollars and 748 dollars.

The rate of growth was faster in the South generally than elsewhere in the nation, but it had farther to go. And the income of colored families relative to incomes of whites remains a national disgrace. In 1949, the median income of all white nonfarm families in 1950 prices outside the

South was 3,442 dollars, while that of colored families in the same circumstances was 2,240 dollars. For colored farm families the statistics were worse: 704 dollars in the South and 1,691 dollars elsewhere, as against 1,382 and 2,358 dollars for whites.

### Unchanging discrepancies

But despite these unchanging discrepancies, a *Who's Who Among the Poor* would show some interesting developments in the past few years. The old-fashioned causes of poverty, unemployment and low wages, are not as important today as they were in the 1930s. But there are some new sociological and demographic causes of poverty that are somewhat alarming.

Women are usually unable to earn as much income as men, sometimes even when they do the same work. Today, more families are headed by women and more women are living alone. Thirty per cent of all the family units in the lowest fifth of income earners in 1949 were such "women families." In 1939 the figure was only 20 per cent.

There is an increasing number of aged people among the lowest income groups. Apparently, the Social Security system is having consequences much different from what were expected in 1935. In 1930, 54 per cent of all men 65

years or older were gainfully employed. Social Security and industrial pension plans enabled more men to retire at 65, and in 1950 the proportion of employed men 65 or over had declined to 41 per cent. But this desirable development of increased leisure has entailed living on a dangerously low income.

In 1948, one-fourth of the families receiving less than 2,000 dollars were headed by persons 65 or older. By 1954, this proportion increased to nearly one-third, and a whopping 64 per cent of all family units headed by a person 65 or older received less than 2,000 dollars. Since the number of elderly people in the United States is certain to increase, the nation has here considerable cause for concern.

On the other hand, society can take some consolation—but not too much—in the fact that elderly people generally require less income than younger people to maintain any given standard of living. Their family units are usually smaller, they receive double federal income tax exemptions, and they are more likely than younger people to have “savings” in the form of paid-for housing,

furniture and appliances. Yet many necessary expenses are as high for the aged as for the young, and their medical expenses may reasonably be expected to be somewhat higher. And inflation pinches the old more than it does the young because their incomes are relatively inflexible. Clearly, today's average old age assistance monthly benefits for single aged workers, about 65 dollars, is grossly inadequate.

Americans today are justifiably proud of their record of reducing the extent and intensity of poverty since the day Franklin D. Roosevelt in his second inaugural address spoke of “one-third of a nation, ill-housed, ill-clad, and ill-nourished.” It is not as much as one-third of a nation now, and even this smaller proportion is not so poorly fed, clad and housed as it was. But it would be foolish of us to assume that we have conquered poverty. It would also be disastrously shortsighted, even from the point of view of the comfortably well off; for we know now, as we unfortunately did not before 1929, that a high degree of mass purchasing power is a necessary condition for long-term economic health. ■

### *Whither Sputnik?*

“I KNOW THAT nothing which truly concerns man is calculable, weighable, measurable. True distance is not the concern of the eye; it is granted only to the spirit.”

—from “*Flight to Arras*” by Antoine De Saint Exupéry



## READING REPORT

**Business Looks at Banks.** George Katona. 179 pp. Ann Arbor: University of Michigan Press. \$5.00.

•Businessmen do not believe that the banker is the stuffy person of folk image. This study of the attitudes of executives in 237 large- and medium-sized firms shows that bankers and businessmen are getting along well. Prof. Katona emphasizes the importance of good personal relations and notes that the resulting good will help reduce resentments caused by tight-money policies.

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**Personality and Organization.** Chris Argyris. 291 pp. New York: Harper & Brothers. \$4.00.

**Scientific Study of Social Behavior.** Michael Argyle. 239 pp. New York: Philosophical Library. \$6.00.

•These studies of the *inter* man—living interdependently with other individuals, groups and organizations—suggest that the social psychologists should begin with the interrelations of social psychologists. Argyle reports on research about the correlation between job satisfaction and efficiency in cases of office workers, bus conductors and railroad work teams, respectively, by three psychologists. They found, respectively, no correlation, some

correlation and a negative correlation. Argyris, accepting perfect social adjustment as the ideal, is distressed by the “fundamental incongruence between the demands of the organization and the needs of healthy individuals.” Is not a certain amount of conflict a healthy thing? Argyle notes that U. S. Air Force bomber pilots scored low in “consideration” and high in “pressure tactics” in a test series. Social psychology justifies intense development, but Argyris and Argyle fail to articulate concepts of general validity, and entrust our safety and security to unhappy gandy dancers and antisocial airmen.

\* \* \*

**The American Cause.** Russell Kirk. 172 pp. Chicago: Henry Regnery. \$3.50.

•Intelligent expressions of the conservative philosophy are rare. The great need for them perhaps excuses the printing of Kirk's views. Unfortunately, his best service to the conservative cause would be to keep his overwhelming silences inarticulate. He embarrasses the reader by thrashing defenseless dead dogs and rises to originality only with wrong-headedness: “The directing passion of communism, in short, is hate.” Can one imagine 200 million Soviet citizens so strenuously hating everyone that they



deny motherhood, music and innocent daydreams? The problem of communism is infinitely more complex than hate; one element is its proclivity to kill with love. The conservatives can do better than Kirk's compulsive pedagogy of the obvious and the false.

\* \* \*

**Accounting for Non-Accountants.**

John N. Myer. 235 pp. New York University Press. \$5.00.

•Useful for the interested outsider, the book is just what the title announces.

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**A Commentary on the Soviet 1956 Statistical Handbook.** Naum Jasny. 212 pp. East Lansing: Michigan State University Press \$4.95.

•Since 1928, the Soviet Union has multiplied its military expenditures by 30, quintupled its educational investment and permitted a wretched 30 per cent rise in private consumption. Prof. Jasny is sure-footed in the Soviet statistical swamps, and carefully analyzes his findings.

\* \* \*

**Organized Business in France.** Henry W. Ehrmann. 514 pp. Princeton: Princeton University Press. \$7.50.

•The greatest mistake a foreigner can make in evaluating a country is to believe what its inhabitants tell him about it. Ehrmann, a University of Colorado political science professor, has accepted the justified criticism of France by the French without sensing their unshaken faith in the nation's viability. He went to France with a jangle of misconceptions and found only supporting facts. Most of his research is filtered through front organizations: the reality of French business escapes its view.

**The Efficient Executive.** Auren Uris. 308 pp. New York: McGraw-Hill Company. \$4.95.

•Reminiscent of the Norman Vincent Peale-Dale Carnegie approach, Mr. Uris' book about the efficient executive might have some appeal for those still addicted to Horatio Alger type literature. But for the intelligent industrialist, there is little of value in this dull rehash of insipid cure-alls. Certainly, effective use of limited amounts of time and energy, better relations with superiors and subordinates, and improved ability to work under pressure are matters of concern to executives, but puerile formulas will not help them achieve these objectives. A good study will have to give more credit to the reader's awareness of the problem.

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**A History of the English Speaking Peoples.** Volume III: The Age of Revolution. Winston S. Churchill. 402 pp. New York: Dodd, Mead & Co. \$6.00.

•The third volume in Sir Winston's panoramic history is, for the general reader, perhaps the most interesting. Covering the period from England's "Glorious Revolution" in 1688 to the Battle of Waterloo in 1815, Sir Winston has ample scope for perceptive comments on the character of statesmen and the problems of statesmen. Clearly, Sir Winston knows whereof he speaks, and his vignettes of such men as the Duke of Marlborough (his ancestor), Lord North and King George III are perhaps even more interesting for the light they shed on the greatest statesman of the 20th century than they are as descriptions of heroes and villains of a bygone era. ■





# Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 51.

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| <p>(1) The United States spends a larger percentage of national income on education than Russia.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(2) Foreign governments have been eager in accepting the Investment Guarantees Program.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(3) Unemployment and low wages have decreased in relative importance as causes of "poverty" today.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(4) The World Bank lends money to member and nonmember nations alike.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(5) In the last 15 years, the percentage of income spent on books by the average American family has declined.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(6) In the Soviet Union, a high rate of interest is charged for the use of capital for production purposes.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> | <p>(7) Expectations of businessmen have an important effect on future economic activities.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(8) Private industry, in recent years, has leveled off its expenditures on research projects.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(9) Smaller businesses find it difficult to secure long-term credit.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(10) A majority of the American labor force is employed by the service industries.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(11) The tendency of labor unions to enter areas of private enterprise is increasing.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> <p>(12) All economic sectors of the North American colonies had a common interest in desiring to break with England.<br/>True <input type="checkbox"/> False <input type="checkbox"/></p> |
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# DEPT of MOUSE TRAPS BETTER

**Around the House:** A watertight flexible shower hose that can be adjusted to any desired height and position . . . an automatic timer that presets lights to go on or off at any indicated time . . . a burglar-proof lock that permits homeowners to leave their windows partially open at top or bottom, or both, yet securely locked . . . a coffee kit that doubles as a bottle-warmer . . . a coat hanger that has built-in de-moth units . . . a hot dog slicer that slits wieners into an even spiral from end to end.

\* \* \*

**Personal Business:** A "refillable" comb that has a permanent handle into which new comb teeth can be fitted . . . nylon shoe protectors that are worn under overshoes . . . a cigarette holder that filters and cools smoke without interchangeable filters . . . for girls who live alone, a 16-inch, gold-plated zipper-upper chain that is hooked on to zipper tab and pulled by forefinger.

\* \* \*

**From the World of Industry:** A 4½-lb., book-size dictation machine that operates on two self-contained batteries on office, car or home current; it has instant playback, holds 15 min. of dictation, and the belts can be transcribed on standard office units . . . a cast consisting of magnetized metal particles that can be tightened into a snug-fitting mass for immobilization and loosened for examination and massage—all with the flip of an electric switch . . . an oiler, the size of a fountain pen, that lubricates pre-

cision machinery and electrical devices.

\* \* \*

**Children's Corner:** A crayon holder that lets the youngster dial a desired color; the matching colors on the outside aid in teaching color association . . . a radio that can be mounted on the handle bar of a bicycle . . . a steel-cabled tightrope that is suspended 16 inches above ground between two platforms in order to satisfy a child's desire to test his balancing ability.

\* \* \*

**On the Waterfront:** A fish grip that permits fishermen to handle catches safely and easily; eliminates gill cuts and dorsal fin pricks, and facilitates removal of bait and plugs . . . a fish alarm that warns the ice-fishermen of a tug on the line by means of a flag; made of rust-proof metal with bronze bearings throughout, the device is said to be impervious to freezing.

\* \* \*

**Auto Highlights:** A parking meter reminder, shaped like a man's watch, that indicates the expiration of parking time and also serves as a coin holder . . . a stop light attached to the left front fender of automobiles that gives extra warning that your car is slowing down . . . a draft shield used as a second window shield for convertibles; it is installed behind the driver and spans the full width of the car.

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Write to CHALLENGE magazine for additional information. ■